The Honorable Benjamin H. Settle

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT TACOMA

IN RE BARRETT BUSINESS SERVICES SECURITIES LITIGATION	Case No. C14-5884 BHS
This Document Relates To: ALL ACTIONS.	CLASS ACTION **CONSOLIDATED AMENDED COMPLAINT** **JURY DEMAND**

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Court-appointed Lead Plaintiff, Painters & Allied Trades District Council No. 35 Pension and Annuity Funds ("Lead Plaintiff" or "Painters Funds"), along with named plaintiff Bakers Local No. 433 Pension Fund ("Bakers Fund") (together with Lead Plaintiff, "Plaintiffs") bring this action pursuant to sections 10(b) and 20(a) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-5), on behalf of themselves and all persons other than Defendants who purchased or otherwise acquired the common stock of Barrett Business Services, Inc. ("Barrett" or the "Company") between February 12, 2013, and October 28, 2014, inclusive ("Class Period"). Defendants are President and Chief Executive Officer ("CEO") Michael L. Elich ("Elich"), Chief Financial Officer ("CFO"), Treasurer and Secretary James D. Miller ("Miller") (together, "Individual Defendants"), and Barrett (together with Individual Defendants, "Defendants").

Plaintiffs allege the following based upon personal knowledge as to themselves and their own acts and upon information and belief as to all other matters. Plaintiffs' information and belief is based on the investigation of Court-appointed lead counsel, Bernstein Litowitz Berger & Grossmann LLP ("Lead Counsel"). This investigation included review and analysis of (i) Barrett's public filings with the U.S. Securities and Exchange Commission ("SEC"); (ii) the reports of securities and financial analysts concerning Barrett's business; (iii) press releases, news articles, earnings conference call transcripts, and other public statements concerning the Defendants; and (iv) interviews with former Barrett employees (identified herein as Confidential Witnesses ("CW")). Lead Counsel's investigation is continuing, and many of the relevant facts are known only by the Defendants, or are exclusively within their custody or control. Plaintiffs believe that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

I. SUMMARY OF THE FRAUD

1. This securities fraud action relates to Defendants' scheme to conceal that Barrett's workers' compensation reserve during the Class Period was understated by at least $80 million.

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Defendants' own admissions, public statements, reports of commentators and the accounts of several former Barrett employees confirm the allegations of fraud detailed herein.

2. Barrett provides business-management solutions for small- to medium-sized businesses. The Company's revenues derive from two separate businesses: staffing services and Professional Employer Organization ("PEO") services, the latter of which makes up nearly three quarters of its revenue. As a PEO, Barrett provides to clients certain employee-management services including employee benefits, payroll, and workers' compensation coverage. As a workers' compensation provider, Barrett is required to set workers' compensation reserves in sufficient amounts to cover both current and incurred, but unknown, claims in accordance with accounting guidance.

3. Throughout the Class Period, Defendants knew, or recklessly disregarded, that Barrett's workers' compensation reserve was dramatically understated. Publicly, however, Defendants represented to investors that Barrett's reserves were adequate and complied with generally accepted accounting principles ("GAAP"). When the truth was revealed, Barrett's stock price declined from a Class Period high of over $100 per share to just $18.28 per share. While investors were left in the dark, Defendants and other Company insiders engaged in unprecedented insider sales, filling their personal pockets with millions of dollars.

4. Early in the Class Period, after discovering that many of the Company's work-related injury claims from calendar year 2012 and prior were suffering from high levels of "loss development," Defendants publicly represented to investors that workers' compensation reserves were "strengthened," while hiding the Company's true exposure. Specifically, as later confirmed, Barrett began to pay "more dollars out sooner" on claims from prior periods and "put[] up dollars on claims quicker." This process, which Defendants misleadingly referred to as "reserve strengthening," not only confirmed that the Company's reserve had been in violation of relevant accounting guidance for years, it caused a massive disruption in the actuarial data related to the Company's workers' compensation claims. Additionally, the rapid transfer of

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reserve dollars to specifically identified open claims resulted in the skewing of established ratios between the various components of the workers' compensation reserve, making it obvious that Defendants knew, or were reckless in not knowing, that Barrett's reserve was materially misstated during the Class Period. Nevertheless, Defendants assured investors that the reserve was "conservative," "adequate," "reasonable and objective," that it represented management's "best estimate," and was the result of an "informed judgment."

5. Defendants' false and misleading statements enabled the Company to repeatedly meet or beat earnings expectations and consistently post increasing revenue and earnings growth statistics throughout the Class Period. For example, the Company reported results that beat analysts' consensus earnings estimates for the fourth quarter 2012, as well as the first three quarters of 2013, leading analyst Roth Capital Partners to state on numerous occasions that Barrett had again "handily" beat its estimates. Additionally, in the Company's earnings press releases, Defendants repeatedly touted the Company's growth rate, including the third quarter 2013 press release, where Defendant Elich stated that Barrett had grown revenues "by more than 30% for the seventh consecutive quarter." These record quarters were only possible because of the massive understatement of Barrett's reserves. In fact, had Defendants properly set the reserves at any point during the Class Period, Barrett would have missed earnings expectations and posted decreasing revenue and growth statistics.

6. It was common knowledge at the Company that Defendants' goal was to drive the stock price up and then "cash out." Ultimately, Defendants achieved this goal. Specifically, between the beginning of the Class Period and January 21, 2014, Barrett's stock price rose from $40.90 to an all-time high of $100.90 per share – a gain of nearly 150%. Through the ascent, Defendants Elich and Miller, along with other Company insiders, sold massive amounts of stock and reaped millions of dollars in profits. Specifically, Defendant Elich sold 48,873 shares at an average price of $52.87, for proceeds over $2.58 million; Defendant Miller sold 35,300 shares at an average of $67.94, for proceeds of almost $2.40 million; and Company insider Gregory

Vaughn ("Vaughn") disposed of 27,239 shares at an average of $83.70, for proceeds of almost $2.28 million. By comparison, in the 21 months preceding the Class Period, these individuals engaged in ***zero*** sales of stock and have sold ***none*** since the end of the Class Period. To put these figures into context, after the true state of the Company's financials was revealed, the stock price closed at $18.28.

7. On September 16, 2014, Copperfield Research published a report about Barrett entitled "*Barrett Business Services . . . A Tick-Tick-Ticking Time Bomb*" ("Copperfield Report"). The 31-page Copperfield Report accused the Company of having "***thin reserves, questionable accounting, a recently disclosed reserve study, and other red flags***." The Copperfield Report detailed numerous issues at the Company, including "***substantial reserve deficiencies***," "***materially overstated earnings and a high probability of a massive reserve charge***." It also identified "significant" reserve-related "red flags" including "a high level of prior-year reserve development," and "irreconcilably low short-term reserves." The Copperfield Report concluded that, in order to bring the Company's workers' compensation reserve in line with comparable companies, Barrett would have to take a charge of at least $63 million.

8. Investors reacted swiftly to the revelations in the Copperfield Report, sending Barrett's stock price down 15.53% on September 16, 2014. Following the Copperfield Report, Defendants denied the Copperfield Report's allegations, and reassured investors that Barrett's reserves were adequate.

9. Less than two months later, on October 28, 2014, Defendants finally admitted their fraud. On that day, Barrett disclosed that it would record a massive provision of $80 million to increase its workers' compensation reserve by over 70%. Notably, the vast majority of the $80 million charge was due to "***development of prior period claims***" – information Defendants have admitted knowing throughout the Class Period. The following day, Barrett's stock price plummeted, falling nearly 59% to close at $18.28.

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II. JURISDICTION AND VENUE

10. The claims asserted herein arise under and pursuant to sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder (17 C.F.R. § 240.10b-5).

11. This Court has jurisdiction over the subject matter of this action pursuant to section 27 of the Exchange Act (15 U.S.C. § 78aa) and 28 U.S.C. § 1331. In connection with the acts, conduct and other wrongs alleged in the Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including the United States mails, interstate telephone communications, and the facilities of the national securities exchange.

12. Venue is proper in this district pursuant to section 27 of the Exchange Act, 15 U.S.C. § 78aa and 28 U.S.C. § 1391(b). Barrett's principal place of business is in the Western District of Washington, and Defendants Elich and Miller are believed to reside in the Western District of Washington. Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this district.

III. THE PARTIES

A. Lead Plaintiff

13. Lead Plaintiff Painters & Allied Trades District Council No. 35 Pension and Annuity Funds are institutional investors that manage assets on behalf of approximately 4,000 union members in Massachusetts, Maine, New Hampshire, Vermont, and Rhode Island. The Painters Funds purchased Barrett common stock during the Class Period, as set forth in the certification previously filed with the Court, and suffered damages as a result of the federal securities law violations alleged herein. By order dated February 25, 2015, the Court appointed the Painters Funds as Lead Plaintiff in this action.

B. Additional Plaintiff

14. Named plaintiff Bakers Local No. 433 Pension Fund is an institutional investor

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that manages assets on behalf of 1,610 participants. The Bakers Fund purchased Barrett common stock during the Class Period, as set forth in the certification previously filed with the Court, and suffered damages as a result of the federal securities law violations alleged herein.

C. Defendants

15. Defendant Barrett is a provider of business management solutions for small and mid-sized companies. The Company has developed a management platform that integrates tools from the human resource outsourcing industry and a knowledge-based approach from the management consulting industry. The Company is headquartered in Vancouver, Washington and its shares are listed on the NASDAQ under the symbol "BBSI."

16. Defendant Michael L. Elich was, at all relevant times, the Company's President and CEO.

(a) Defendant Elich joined the Company in October 2001 as Director of Business Development. He was appointed Chief Operating Officer in May 2005, and interim President and CEO in January 2011 upon the death of the Company's long-time Chairman and CEO William W. Sherertz ("Sherertz"). Effective February 17, 2011, Elich was elected to serve on Barrett's Board of Directors ("Board") and was made President and CEO;

(b) During the Class Period, Defendant Elich made materially false statements and omissions in Barrett's public filings, during conference calls and at presentations regarding Barrett's true exposure to workers' compensation claims, and concealed from investors material information, including that Barrett was intentionally understating its total reserve for workers' compensation claims, and knowingly or recklessly disregarding that the methodology used to set the reserve, as well as the amount of the reserve, violated GAAP. Defendant Elich made additional false and misleading statements regarding the Company's internal claims review for establishing the workers' compensation reserves throughout the Class Period and the Company's investment in additional infrastructure and "conservative approach" to ensure the reserve was adequate;

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(c) Pursuant to section 302 of the Sarbanes-Oxley Act of 2002 ("SOX"), Defendant Elich executed certifications in conjunction with Barrett's false and misleading annual reports on Forms 10-K for the fiscal years 2012 and 2013. Defendant Elich also executed section 302 certifications in conjunction with Barrett's false and misleading quarterly reports filed throughout the Class Period on Forms 10-Q;

(d) Pursuant to section 404 of SOX, Defendant Elich executed certifications in conjunction with Barrett's false and misleading annual reports on Forms 10-K for the fiscal years 2012 and 2013;

(e) Pursuant to section 906 of SOX, and in accordance with sections 13 and 15(d) of the Exchange Act, Defendant Elich signed and certified Barrett's false and misleading annual reports on Forms 10-K for the fiscal years 2012 and 2013. Defendant Elich also executed section 906 certifications in conjunction with Barrett's false and misleading quarterly reports filed throughout the Class Period on Forms 10-Q;

(f) Defendant Elich directly participated in the management and day-to-day operations of the Company and had actual knowledge of confidential proprietary information concerning the Company and its business, operations, growth, financial statements and financial condition. Because of this position of control and authority, his ability to exercise power and influence with respect to Barrett's course of conduct and his access to material inside information about Barrett during the Class Period, Defendant Elich, at the time of the wrongs alleged herein, was a controlling person within the meaning of section 20(a) of the Exchange Act; and

(g) During the Class Period, Defendant Elich, while in possession of material inside information, sold 48,873 shares of Barrett common stock at an average price of $52.87, for total proceeds in excess of $2.58 million.

17. Defendant James D. Miller was, at all relevant times, the Company's CFO, Treasurer, Secretary and Vice President of Finance.

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(a) Miller joined the Company in January 1994 as Controller. He was promoted to CFO, Treasurer, Secretary and Vice President of Finance in June 2008. Mr. Miller is a certified public accountant on inactive status;

(b) During the Class Period, Defendant Miller made materially false statements and omissions in Barrett's public filings, during conference calls and at presentations regarding Barrett's true exposure to workers' compensation claims, and concealed from investors material information, including that Barrett was intentionally understating its total reserve for workers' compensation claims, and knew or recklessly disregarded that the methodology used to set the reserve, as well as the amount of the reserve, violated GAAP. Defendant Miller made additional false and misleading statements regarding the Company's internal claims review for establishing the workers' compensation reserves throughout the Class Period and the Company's process of "improve[ing] the predictability of claims costs" to ensure the reserve was adequate;

(c) Pursuant to section 302 of SOX, Defendant Miller executed certifications in conjunction with Barrett's false and misleading annual reports on Forms 10-K for the fiscal years 2012 and 2013. Defendant Miller also executed section 302 certifications in conjunction with Barrett's false and misleading quarterly reports filed throughout the Class Period on Forms 10-Q;

(d) Pursuant to section 404 of SOX, Defendant Miller executed certifications in conjunction with Barrett's false and misleading annual reports on Forms 10-K for the fiscal years 2012 and 2013;

(e) Pursuant to section 906 of SOX and in accordance with sections 13 and 15(d) of the Exchange Act, Defendant Miller signed and certified Barrett's false and misleading annual reports on Forms 10-K for the fiscal years 2012 and 2013. Defendant Miller also executed section 906 certifications in conjunction with Barrett's false and misleading quarterly reports filed throughout the Class Period on Forms 10-Q;

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(f) Defendant Miller directly participated in the management and day-to-day operations of the Company and had actual knowledge of confidential proprietary information concerning the Company and its business, operations, growth, financial statements and financial condition. Because of this position of control and authority, his ability to exercise power and influence with respect to Barrett's course of conduct and his access to material inside information about Barrett during the Class Period, Defendant Miller, at the time of the wrongs alleged herein, was a controlling person within the meaning of section 20(a) of the Exchange Act; and

(g) During the Class Period, Defendant Miller, while in possession of material inside information, sold 35,300 shares of Barrett common stock at an average price of $67.94, for total of nearly $2.40 million.

IV. FACTUAL ALLEGATIONS

18. Barrett is a provider of business management solutions for small and mid-sized businesses, including electronics manufacturers, agriculture-based companies, transportation and shipping enterprises, food processing, telecommunications, public utilities, general contractors in various construction-related fields and professional services firms. Barrett engages principally in two lines of business: PEO services and staffing services. As detailed below, the PEO business is by far the larger revenue generator for Barrett, accounting for nearly 73% of the Company's revenues for fiscal year 2013. As a PEO, Barrett provides its clients the ability to outsource employee-management tasks, such as employee benefits, payroll, payroll taxes, workers' compensation coverage, recruiting, risk/safety management, and training and development. Barrett's agreements with its PEO clients result in Barrett assuming responsibility for these tasks, while the client maintains physical care, custody and control of the workforce, including the authority to hire and terminate employees.

19. Barrett hires its PEO clients' employees, and becomes the employer of record for tax and insurance purposes. As a result, Barrett (as the PEO) and the clients become "co-

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employers" of the employees. At year-end 2013, Barrett served 2,850 PEO clients and accordingly acted as co-employer for 70,250 PEO employees. As the table below shows, Barrett's PEO business grew consistently from the end of 2010 through the end of 2013:

Period	PEO Clients	PEO Employees
Year-ended December 31, 2010	1,565	32,800
Year-ended December 31, 2011	2,355	41,500
Year-ended December 31, 2012	2,550	56,210
Year-ended December 31, 2013	2,850	70,250

20. During the same time period, the net revenues attributable to its PEO business grew as well. Eventually, at year-end 2013, the percentage of Barrett's net revenue attributable to PEO services constituted nearly three quarters of the Company's overall net revenue:

Period	**Percentage of Barrett Net Revenue Attributable to PEO Clients**
Year-ended December 31, 2010	54.0%
Year-ended December 31, 2011	60.4%
Year-ended December 31, 2012	68.5%
Year-ended December 31, 2013	73.0%

21. At December 31, 2013, Barrett had clients with employees in 22 states and the District of Columbia through a network of 52 branch locations in California, Oregon, Washington, Idaho, Arizona, Nevada, Utah, Colorado, Maryland, Delaware and North Carolina. Its revenues, however, were highly concentrated in California:

Period	**Percentage of Barrett Net Revenue Attributable to California Clients**
Year-ended December 31, 2010	87%
Year-ended December 31, 2011	89%
Year-ended December 31, 2012	69%
Year-ended December 31, 2013	74%

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A. Barrett's Workers' Compensation Reserve

22. States generally require that employers reimburse their employees for the costs of medical care for injuries incurred in the course of employment. The benefits payable for various categories of claims vary by state based on regulation and the nature of the injury. Such benefits, known as workers' compensation, are often the exclusive remedy that employees can seek against their employers for workplace injuries. Most states also require that employers maintain workers' compensation insurance or otherwise demonstrate their ability to meet their workers' compensation obligations.

23. Under GAAP, companies (including PEOs) are required to set reserves at an appropriate level to satisfy their workers' compensation liabilities. A workers' compensation reserve is generally made up of components including: reserves for known cases ("Case Reserves"), reserves for injuries that have been incurred but not reported ("IBNR"), and reserves for future increases in costs associated with known cases ("Adverse Loss Development").

24. When it comes to workers' compensation claims, there can be a significant time lag between the date on which a claim occurs (*i.e.*, the date on which a worker gets injured) and the date on which a claim is reported to the company (*i.e.*, the date on which the injured worker files a claim). IBNR represents the amount needed to cover claims that have already happened, but have not yet been reported to the Company. IBNR is based on factors such as current and historical claims activity, payment patterns and medical cost trends. Adverse Loss Development[1], on the other hand, represents the additional expenditures, above the amount

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[1] Adverse Loss Development is defined by the International Risk Management Institute as "the difference between the original loss as initially reserved by an insurer and its subsequent evaluation later or at the time of its final disposal. Loss development occurs because of (1) inflation—both "social inflation" and inflation in the consumer price index—during the period in which losses are reported and ultimately settled and (2) time lags between the occurrence of claims and the time they are actually reported to an insurer. To account for these increases, a "loss development factor" (LDF) or multiplier is usually applied to a claim or group of claims in an effort to more accurately project the ultimate amount for which they will be closed."

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currently incurred, that will be needed to ultimately settle the known claims. The Adverse Loss Development component of a workers' compensation reserve is derived by applying an appropriate loss development factor, or LDF, to known claims. Adverse Loss Development and LDF are typically revisited and adjusted on a quarterly basis (at a minimum) to ensure that the total amount of the workers' compensation reserve is sufficient to cover the ultimate expected cost of the claim.

25. The sum of IBNR and Adverse Loss Development is known as Total IBNR. Total IBNR is typically the larger portion of a company's total workers' compensation reserve because the Case Reserve portion only represents known claims as of the end of the reporting period. Additionally, there are established mathematical relationships (ratios) between Total IBNR and Case Reserves as well as Total IBNR and total reserves.

26. An example is useful to demonstrate how the various components of the total workers' compensation reserve interact. Assume that a worker breaks an arm, reports the injury to its employer, presents medical invoices of $100 and that the employer normally incurs approximately $2,000 to resolve this type of injury. As of the balance sheet date subsequent to the injury, the employer would be required to record, within its specific Case Reserves, the estimated amount of $2,000 for the known claim. In addition, assume the employer has experienced an Adverse Loss Development of 10% over the years. Thus, an additional $200 (*i.e.*, 10% of $2,000) must be included in Adverse Loss Development, representing a total reserve of $2,200 related to the employee's broken arm. Periodically, the employer would review the liability to ensure that the total amount of the reserve for the broken arm was properly recorded and reflected the total estimated costs to resolve such a claim. Ultimately, when all invoices have been presented and all payments made, the Case Reserve is reduced to zero. The known costs to resolve this claim are then utilized to evaluate the Company's Total IBNR and Adverse Loss Development.

27. Barrett's workers' compensation reserve was made up of Case Reserves and Total

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IBNR.[2] The Company represented to investors that when an injury occurred and was reported, its TPAs or internal claims-management personnel would analyze the details of the injury, record the corresponding expense and increase the workers' compensation reserve. Throughout the Class Period, the Company represented to investors that its workers' compensation reserve was "based upon an actuarial estimate provided by the Company's independent actuary."

28. Defendants had decades of experience in the PEO industry, and repeatedly represented themselves as workers' compensation liability experts. For example, in a conference call with investors in February 2014, Defendant Elich touted "the 20 years of experience that we have in taking risk with our clients in the area of workers' comp." Elich elaborated as follows:

> [W]e have, over time, created a great deal of history that tells us roughly where we should be. So if you look at 20 years of history, and look at the fact that we have throughout our entire history, closed 92% of all claims that we've ever opened, . . . we have a basis to identify what it is that we should be accruing to accrue for the total liability, while at the same time, when we hang up against our existing claims, and we do stress those claims to what we consider the ultimate expected, we're not seeing a deviation between the two.

29. Investors and analysts relied on Defendants re-assurances that the reserve was accurate throughout the Class Period. For example, in September 2014, as the truth of Defendants' fraud was emerging, analyst Jeff Martin at Roth Capital Partners declared, "[w]e have a high degree of conviction in BBSI management," and "[w]e believe BBSI's workers' compensation claims experience is materially better than the industry."

30. As a result of their purportedly extensive experience with workers' compensation reserves, Defendants were aware of the established mathematical relationships between Total IBNR and Case Reserves as well as Total IBNR and total reserves. Defendant Miller confirmed

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[2] In addition to accruing for medical costs related to employees' injuries, Barrett recorded the following additional expenses associated with its workers' compensation program within the workers' compensation reserve: (i) fees paid to its third-party administrators ("TPAs"); (ii) fees paid to state workers' compensation regulatory agencies; (iii) legal fees; (iv) fees paid for business referrals; (v) premiums for excess workers' compensation insurance; and (vi) costs associated with operating its captive insurance company.

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this, stating that "typically, there is an expected ratio of IBNR to case reserves." *See infra*, ¶¶56-57.

31. In general, the amount of a company's workers' compensation reserves directly affects its profitability. Increasing the workers' compensation reserve increases expenses which, in turn, decreases gross margin, income from operations and income before income taxes on a dollar-for-dollar basis in addition to decreasing the company's net income and earnings per share.

B. Defendants' History Of Issues With The Workers' Compensation Reserves

32. In the three-and-a-half years preceding the Class Period, Barrett repeatedly addressed issues with the reserve and was forced to increase the reserve on numerous occasions. Defendants, however, constantly assured the market that the problems were a top priority for management, that the Company was investing extra time and money to ensure that the past problems had been corrected, and would not recur.

1. Barrett Restates Five Years Of Financial Statements And Increases Its Workers' Compensation Reserve

33. On March 17, 2011, the Company announced that, due to an error related to expenses incurred for the administration of workers' compensation claims, its previously issued financial statements (i) for the fiscal years ended December 31, 2006, 2007, 2008 and 2009; and (ii) for the quarters ended March 31, 2010, June 30, 2010, and September 30, 2010, should no longer be relied upon and that all periods would be restated. The Company noted that following the "correction of the error," the workers' compensation reserve at December 31, 2010, and 2009 would be increased to approximately $8.2 million.[3]

34. In connection with the March 17, 2011 restatement announcement, the Company

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[3] These increases to the workers' compensation reserve were in addition to an $11.8 million provision that the Company had taken in 2009 to increase the reserve at June 30, 2009.

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also disclosed that its internal controls were not effective as of December 31, 2010. It did, however, assure investors that the Company had implemented changes in its control processes during the quarter ended March 31, 2011, which remediated the control deficiencies.

35. Throughout 2011, Defendants repeatedly assured investors that they were paying close attention to workers' compensation expenses and the workers' compensation reserve. For example, on April 27, 2011, Defendant Elich stated that although "workers' comp" was a "headwind" for the Company, Defendants were "not concerned" about workers' compensation expense "as much as it is something we're watching very closely."

2. Barrett Takes Another "Adjustment" Related To Adverse Development Of Claims From 2005 Through 2009

36. On February 13, 2012, Barrett disclosed that it was recording another increase to its workers' compensation reserve of approximately $8.5 million as a result of adverse development in workers' compensation claims incurred between 2005 and 2009. The Company noted that it had determined that the increase was necessary following an in-depth analysis that management had performed with assistance from its actuary, which had uncovered significant claim development, particularly in the fourth quarter of 2011. The Company stated its belief that the increased claim development was the result of a prolonged recession coupled with higher legal expenses on the older claims.

37. On a February 14, 2012 conference call, Defendant Miller provided further details about what caused the $8.5 million increase in the workers' compensation reserve, and what Barrett was doing to ensure that the problem did not recur:

> With assistance from our independent actuary we have performed an in-depth analysis of these prior year claims and have established ***what we believe to be more conservative reserves for this pool***. During this process we discovered that while we have worked with the same actuary for the past several years, we have determined ***the need to better understand the drivers in their various actuarial models that we can identify and respond to trends more quickly***. With the benefit of hindsight we also determined that the previous quarterly actuarial reviews conducted ***were not robust enough to monitor development of prior years, and as a result, we have moved to having a complete analysis performed***

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> ***each quarter, similar to the actuary's full annual analysis***. Internally we are modeling future quarters by forecasting claims based upon our recent past experience and truing up estimates as changes in trends and frequency and severity warrant.

38. Analysts relied on Defendants' statements that the Company's workers' compensation reserve issues were behind it. For example, Roth Capital Partners noted that "WC Charge Removes Future Uncertainty" and that "it appears that management has taken a conservative stance on the future liability at this point, which could lift earnings in the out years if claim experience improves."

C. Barrett's Longtime CEO Passes Away, And Defendants Are Forced To Buy Back 30% Of Barrett's Outstanding Stock At An 8.9% Premium

39. In January 2011, Barrett's longtime Chairman and CEO Sherertz, who had run Barrett since 1980, passed away. At the time of his death, Sherertz owned nearly 2.5 million shares of Barrett's stock, or roughly 25 percent. Starting in 2011, Sherertz's widow, Kimberly Sherertz, who was administrating his estate, sought seats on the Barrett Board for herself and two nominees. The Company later announced that it would not offer Ms. Sherertz and her nominees seats on the Board. In November 2011, Ms. Sherertz said she would run her own slate of director candidates and unsuccessfully sought a special shareholders meeting.

40. On March 9, 2012, the Company announced it would buy back nearly 3 million shares of common stock (nearly 30% of all shares outstanding) on the following terms:

- 2,485,929 shares at $20 per share from Sherertz's Estate; aggregate consideration of $49,718,580 ($20,745,530 in cash and 28,973 shares of preferred stock); and
- 500,000 shares at $20 per share from Sherertz's ex-wife Nancy; aggregate consideration of $10,000,000 ($4,173,000 in cash and 5,827 shares of preferred stock).

41. The total consideration of the stock buyback was $59.72 million and the $20 per share price represented an 8.9% premium over the then-market price.

42. In connection with the stock repurchase, Ms. Sherertz agreed to cause the Sherertz

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Estate and all other affiliated holders of Barrett's common stock to cease all efforts previously undertaken with respect to her request for a special stockholders meeting, as well as her nomination of individuals for election at the Company's 2012 annual meeting of stockholders.

D. Barrett Enters Into A Fronted Agreement With ACE As The Result Of Changes In California Workers' Compensation Law

43. In many states, employers who meet certain requirements are permitted to self-insure for workers' compensation benefits. Barrett became self-insured in Oregon in 1987 and thereafter obtained self-insured status in five additional states, California, Delaware, Maryland, Colorado and Washington. Regulations governing self-insured employers typically require the employer to maintain surety deposits of government securities, letters of credit or other financial instruments to cover workers' compensation claims.

44. In September 2012, California Senate Bill 863 ("SB 863"), which prohibited PEOs from being self-insured in California effective January 1, 2015, was signed into law. The new law required any company, such as Barrett, that previously had consent to self-insure in California, to secure alternatives. Defendants addressed the impact of SB 863, including the Company's potential options, with investors during late fiscal years 2012 and 2013, noting both on conference calls and in its periodic filings throughout 2013 that the Company was exploring several potential alternatives to address the impact of SB 863.

45. Ultimately, in February 2014, Barrett entered into a "fronted" agreement with ACE Group ("ACE"). Under this arrangement, Barrett retained the risk of loss up to the first $5.0 million per claim through an indemnity agreement, and ACE was responsible for any claims Barrett was unable to satisfy. Barrett's intention was to transition to the ACE program so that by December 31, 2014, all of its California employees would be covered under the new arrangement.

46. Defendants estimated that SB 863 would cause the Company's cost of workers' compensation to increase by 25 to 30 basis points. Defendants noted on conference calls that

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they did not expect the increase to affect their profitability, as they intended to pass the pricing increase on to their clients. For example, the Company's Third Quarter 2014 Form 10-Q noted that "[w]e expect to offset the increased costs of the fronted program . . . described above through price increases to selected customers."

V. DEFENDANTS' FRAUD

47. During the Class Period, Defendants knowingly, or with reckless disregard, made false and misleading statements or omitted material information about Barrett's workers' compensation reserve and the Company's profitability. These materially false and misleading statements and omissions misled investors, including Plaintiffs, regarding the true nature of Barrett's business, the accuracy of its financial statements and the sufficiency of its internal controls over financial reporting. In truth, Barrett's workers' compensation reserve was grossly understated during the Class Period, and the Company suffered from pervasive internal control deficiencies.

48. Defendants' fraud allowed them to drive Barrett's stock price to record levels, and Defendants cashed in with more than $7.26 million in insider sales. Specifically, Barrett's stock price rose from $40.90 per share at the beginning of the Class Period to an all-time high of $100.90 per share on January 21, 2014 – a gain of nearly 150%. Had Defendants disclosed the true state of the workers' compensation reserve at any time during the Class Period, Barrett's profits – and thus its ability to buy back shares and issue dividends – would have been completely eliminated.

A. Defendants Misstated Barrett's Workers' Compensation Reserve Throughout The Class Period

49. Throughout the Class Period, Defendants consistently touted their experience in the PEO industry, and, in particular, with workers' compensation-related issues. For example, the 2012 and 2013 Forms 10-K noted that Defendant Elich had been in the staffing and PEO business since at least 1995, and joined Barrett in 2001. Likewise, the Forms 10-K represented

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that Defendant Miller had been with Barrett since 1994. Defendant Elich repeatedly underscored Barrett's depth of experience to investors, stating that the Company had "20 years of experience . . . in taking risk with our clients in the area of workers' comp" and "[g]iven that we have been doing this for 20 years, we have a lot of history to know where we need to be."

50. Despite this purported expertise, Defendants have now admitted that their historical method of recognizing expenses associated with workers' compensation claims – which was in place at the beginning of the Class Period – was not in compliance with GAAP. As described more fully below, GAAP requires that once a workers' compensation injury is reported, the full amount of the estimated loss must be immediately recognized in Case Reserves. But, as Defendant Elich has admitted, at the beginning of the Class Period, if a $10,000 claim had been reported to the Company, Defendants would first "put up" $2,500 in Case Reserves, and thereafter "put dollars up again, and maybe again and again." In other words, rather than recognize the entire $10,000 in Case Reserves as GAAP requires, Defendants improperly held back reserve dollars, only recognizing them in Case Reserves periodically throughout the life of the claim. This methodology improperly depressed Case Reserves, and resulted in the Company's entire workers' compensation reserve being understated.

51. In addition, Defendants were aware at the beginning of the Class Period that the Company's workers' compensation claims from prior years were suffering from high levels of "loss development." As described above, loss development is when a liability (here, a workers' compensation claim) suffers increased costs between the time it is initially reserved for, and when it is finally disposed. In the context of workers' compensation, loss development can occur as the result of a number of factors, including longer-than-expected duration of rehabilitation, injury complications, increased legal fees and increased legal settlements. Defendant Miller admitted that at least part of the loss development for Barrett's outstanding claims related to increased legal costs because the Company "would tend to fight those more complex claims sometimes over the period of several years which would result in increased

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costs." CW1, a former risk manager that worked for Barrett in California from 2012 to 2014, confirmed that Barrett had a reputation of not paying certain claims and "fighting them in court."

52. Defendants became intimately familiar with the loss development problem beginning in 2012 while reviewing the reserve levels for claims that had been incurred in prior years. In Defendant Elich's own words, "[i]n 2012, we started the process of understanding what the ultimate level of liability would be if we stress each claim." As part of the internal review, in July 2013, the Company commissioned and conducted a study regarding the adequacy of the Case Reserves on the Company's open claims incurred in 2012 and earlier.

53. Either in an effort to bring their reserve methodology into compliance with GAAP, or in an attempt to avoid additional loss development, during 2013, Defendants embarked on a strategy to, as they later described, pay "more dollars out sooner" on claims, "put[] up dollars on claims quicker" and "reserve[] claims at a faster rate." Specifically, they began moving reserve dollars related to **claims incurred in prior years** from Total IBNR into Case Reserves more quickly than before. Publicly, Defendants misleadingly referred to this process as "reserve strengthening." Additionally, Defendants implemented a similar "change in reserve practice" for **new claims** whereby the Company would: (i) attempt to close claims more quickly; and (ii) record Case Reserves in an amount that included all of the anticipated future costs associated with a new claim.

54. CW2, a risk management consultant that worked for Barrett in California for eleven years between November 2003 and December 2014, stated that Defendant Elich discussed increasing the reserves in 2013. Defendant Elich told the branches that they "were going to have a new calculation for reserving for workers' comp injuries." Although CW2 did not understand the specifics of the new calculation, CW2 noticed that the Company began reserving more, leading CW2 to believe that "the shell game was up."

55. Defendants' "reserve strengthening" would not have been necessary if the full amount of the liability would have been recognized in Case Reserves from the date the injury

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was reported. Had that occurred, there would have been no need to move reserve dollars from Total IBNR in the first place. Defendants have now admitted that the Company's "reserve strengthening" process "caused disruption in the actuarial data" that Defendants relied upon to calculate the Company's reserve. This disruption caused the workers' compensation reserves to be nearly impossible to calculate accurately. Indeed, Defendant Elich later admitted that, as a result of the disruption, "[t]he actuaries have very little way of recognizing where we're at" and that the Company had "no basis to work from" in setting the reserve.

56. Even if the "reserve strengthening" process had not created a disruption that made accurately setting the reserve nearly impossible, Defendants knew, or were reckless in not knowing, that the "strengthening" should have immediately resulted in the Company's reserve being increased. Specifically, given that there are recognized ratios between the Case Reserve and the Total IBNR – including that the Case Reserve is never higher than Total IBNR – moving dollars from Total IBNR to Case Reserves requires a concurrent increase in Total IBNR. Without such an increase to Total IBNR (which would also have the effect of increasing the total workers' compensation reserve), the ratios are not maintained, Total IBNR no longer reflects the accurate loss development factor, and the total reserve no longer accurately reflects the level of expected liability.

57. Defendants knew these mathematical relationships. In fact, Defendant Miller acknowledged publicly after the Class Period that "[t]ypically, there is an expected ratio of IBNR to case reserves." Accordingly, Defendants knew that if they "borrowed" dollars from Total IBNR to satisfy Case Reserves without simultaneously increasing the Total IBNR, that the Total IBNR, and thus the total workers' compensation reserve, would be understated.

58. During 2013 and the first two quarters of 2014, Defendants consistently decreased the ratio of Total IBNR to Case Reserves:

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Period	Total IBNR	Case Reserves	Ratio of Total IBNR to Case Reserves
Year-end 2012	$48.0 million	$22.6 million	213%
Year-end 2013	$69.6 million	$42.8 million	163%
1Q' 2014	$69.2 million	$51.0 million	136%
2Q' 2014	$29.9 million	$92.6 million	32%

59. Moreover, in direct violation of sections 302, 404 and 906 of SOX, Defendants continued to improperly rely solely on the Company's third-party actuary to calculate the Company's reserve.

60. Defendants were closely involved with all aspects of the "reserve strengthening" process, including the Case Reserves study, the change in reserve practice, and the decision to move dollars from Total IBNR to Case Reserves without appropriately increasing the overall reserve.

61. CW3, an area manager that worked for Barrett in Washington from 2001 to 2013 and reported directly to Defendant Elich stated that Defendants knew "to the penny" what the Company's workers' compensation exposure was and what the reserves should have been. CW3 described in detail that executives at Barrett's corporate office paid close attention to injury- and claim-related information. CW3 stated that Barrett's policy was that if a branch received notice of a workers' compensation claim, it had to forward the paperwork to the corporate office within 24 hours. All information about the reported injury was to be included in this paperwork, including what the injury was, where on the body, and how serious it was. CW3 stated that such paperwork was sent directly to Defendant Elich, Chief Administrative Officer Vaughn and workers' compensation administrator Steven McComb. CW3 believed that every single claim went across Defendant Elich's desk.

62. CW3 stated that Defendant Elich held mandatory conference calls once per quarter that all of the branch managers and branch employees were required to attend. At these meetings, CW3 stated that Defendant Elich would "drill" everyone about workers'

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compensation, and that at the corporate level, workers' compensation was the "biggest focus" and what they "tracked the most."

63. CW2 stated that Barrett's corporate office composed and distributed quarterly reports related to the reserve called "Branch Quarterly Workers' Compensation Reports" ("Quarterly WC Reports"). CW4, a branch manager that worked for Barrett in California during 2010 and 2011 confirmed that the branches would receive these periodic reports.

64. The Quarterly WC Reports contained a number of pieces of information, including "what claims cost when they were opened, what they cost at 30 days, what they cost at 60 days, and what the claim finally closed at." In addition, CW2 confirmed that the Quarterly WC Reports showed "what the company was reserving" for each injury. CW2 stated that numerous individuals at corporate were familiar with the Quarterly WC Reports, including Defendant Elich, Defendant Miller, Chief Administrative Officer Vaughn and Vice President Greg Nest. In fact, CW2 confirmed that the Quarterly WC Reports were sent to the branches by either Jennifer Barry, who worked in the Company's Accounts Receivable/Accounts Payable department, or Marianne Brown, who was Defendant Elich's executive secretary.

65. CW2 felt that the amount reserved for injuries in the Quarterly WC Reports "was about 50% too low" for the actual injury. In other words, CW2 stated that "the corporate reserve would be much less than the actual claim would end up costing" Barrett and CW2 suspected that Barrett was "running two sets of books."

66. CW2 also stated that employees at Barrett "all knew that BBSI's workers' comp was under-reserved" and many wondered "where all the money was going." CW5, a former director of business development for Barrett in Washington from May 2009 until September 2014 confirmed that it was "common knowledge" around the office that Barrett was under-reserved. CW5 stated that Nancy White ("White"), the Company's third-party administrator that reported directly to Defendant Elich, would speak openly about her suspicions regarding the

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reserve. For example, CW5 stated that White said that the number of workers' compensation claims was "getting out of hand" and that the Company "just was not prepared for it."

67. On January 21, 2014, Defendants disclosed that the Company would increase its workers' compensation reserve by $5.1 million as the result of increases in reserves for "prior year injury claims, primarily in the state of California." The release also contained the following quote from Defendant Elich:

> During the quarter, we determined the need to increase this reserve as a result of our actuarial firm's quarterly and annual review, in combination with insights provided through our new relationship with ACE Group to provide workers' compensation coverage in California.

68. On February 5, 2014, Defendants hosted a conference call to discuss Barrett's fourth quarter 2013 results and disclosed, for the first time, the existence of the "reserve strengthening." Defendants described the process, and assured the market that the worst was behind the Company. During the call, Defendant Elich attempted to explain the process as follows:

> in reviewing the why behind our taking a charge in the quarter, there are a couple contributing factors. During the past couple years, we have been taking steps to evolve our process by which we reserve for liabilities related to workers' comp. ***When I say that, I'm really speaking more to how we put dollars up against claims, more so than how we accrue for the claims.***

69. After explaining that the Company was now moving money to Case Reserves more quickly, Defendant Elich identified that the rapid movement of dollars created issues with actuarial data:

> The challenge is, is that when you start to change your reserving practices to get more dollars up on the claim earlier, say we put $5,000 now onto the claim earlier, the total liability doesn't change from $10,000, but now we're half way there earlier. ***The actuaries have very little way of recognizing where we're at.*** So what they do is they look at the four times turn on the initial dollars that you put up in your history, and they say because you're putting dollars up faster, now the liability went from $10,000 to $20,000.

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70. Defendant Elich characterized Barrett's method of reserving for workers' compensation liabilities as "Voodoo science." CW2 referred to Barrett's method of reserving for workers' compensation liabilities differently: it was "all a Rubik's cube to us."

71. On the call, Defendant Elich falsely assured investors that recording the $5.1 million charge now would create "better predictability as we go forward" and that the Company and investors could now be assured that it was "properly reserved for the total liability associated with the claim." In conclusion, Defendant Elich stated that "I know for sure that our best days are still ahead."

72. Throughout the first three quarters of 2014, Defendants represented to investors that they continued to make progress on the "reserve strengthening process" and that the workers' compensation reserve was set at an appropriate level. On July 30, 2014, Defendant Miller stated that the Company was "continuing to progress" through the "reserve strengthening process," but that it had now "engaged an outside consulting firm who will soon be reviewing a sample of these strengthened claims to evaluate the sufficiency of the new estimated claim values as well as assist management in gaining an enhanced understanding of trends within our claim population."

73. Defendants did not provide additional detail regarding the new reserve study, including who was conducting it, or why. Copperfield Research, however, later commented that it believed that the "impetus behind BBSI reserve study is its new fronting partner, ACE." Copperfield Research also speculated that since ACE had worked with the Willis Claims Review Team ("Willis") in the past, "[s]hould it be disclosed [that] . . . Willis is conducting the reserve study, we believe it could signal ACE may not be comfortable with BBSI's reserve position." CW2 heard that the change in reserve process was at ACE's request, which was never disclosed to investors, and that ACE did an audit in which Barrett came up $80 million short on reserves.

74. On September 4, 2014, Defendant Elich presented at the Liolios Group Gateway Conference where he further explained the "reserve strengthening." He admitted that while the

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process had disrupted the actuarial data so that the Company had "no basis to work from," he reassured investors that the workers' compensation reserve was not only accurate, but over-conservative. Specifically, Defendant Elich stated that for the claims that the Company had strengthened, "we've seen very positive trends" and "we're finding out that what we strengthened . . . when we're settling claims, we have dollars coming back. ***So, we overshot it to a degree***."

75. In truth, the Company's workers' compensation reserve was understated by at least $80 million. As investors later learned, the Company engaged Willis as its "actuarial consultant" no later than May 2014 to "ensure" that the Company was "not missing anything" during its "reserve strengthening." There were 1,800 open claims from prior periods when the Company began the "strengthening" process. Through the process, the Company determined that for 1,285 of those claims – a staggering 71% – needed "strengthening." Willis conducted a review of 180 claims drawn from a targeted population of claims which had the "highest probability of complexity." Following the review, which was based on information that Defendants had the entirety of the Class Period, Willis issued an opinion recommending that the Company increase its reserve by at least $80 million.

B. The Individual Defendants Profited From Their Scheme

76. CW6, an area manager for Barrett in Oregon from May 2009 through February 2013, stated that it was common knowledge on the executive floor at Barrett's corporate headquarters that the goal of Defendant Elich and the Board was to drive up the stock price and then "cash out." Indeed, as the following chart shows, from 2008 through 2011, Barrett's stock price performed roughly in line with the NASDAQ Composite Index and its peer group. Between 2012 and 2013, however, the stock price diverged widely from these indexes, and experienced an explosive increase of nearly 150%:

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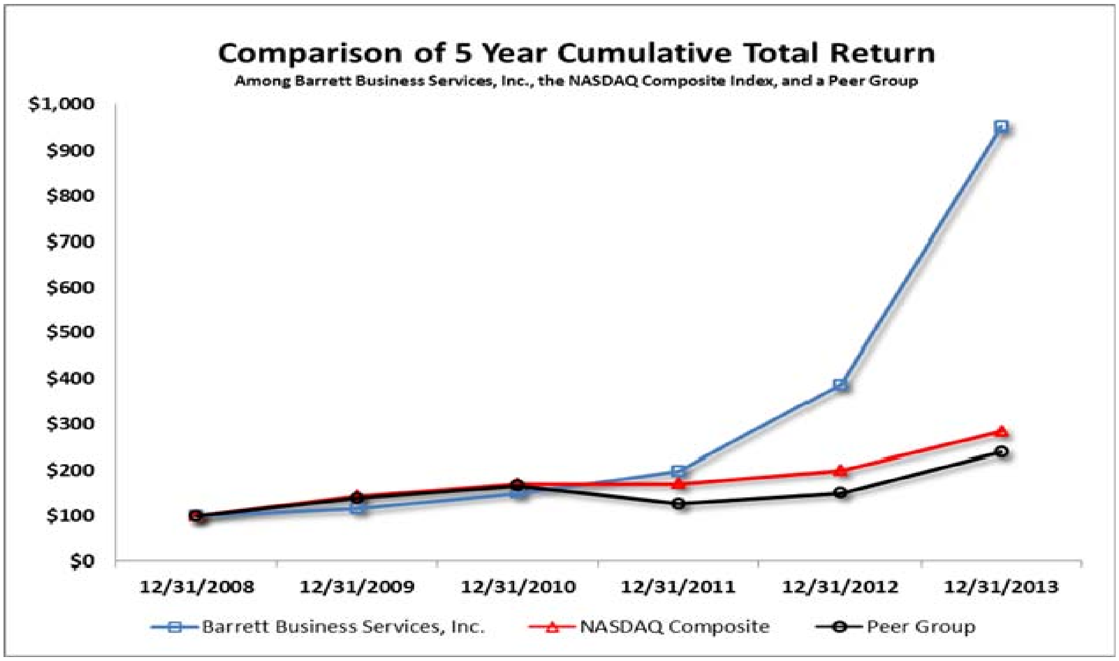
Comparison of 5 Year Cumulative Total Return
Among Barrett Business Services, Inc., the NASDAQ Composite Index, and a Peer Group
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
12/31/2008
12/31/2009
12/31/2010
12/31/2011
12/31/2012
12/31/2013
Barrett Business Services, Inc.
NASDAQ Composite
Peer Group

77. Defendants Elich and Miller engaged in substantial selling of Barrett common stock during the Class Period while in possession of material, nonpublic information. As the result of Defendants' materially false statements and omissions, these sales were executed at artificially inflated prices. Several factors are indicative of the highly unusual and suspicious trading, including the number of shares sold, the gross proceeds, the amount of sales compared with the Individual Defendants' prior and subsequent trading history, the historically high prices at which the sales occurred, and the timing of the sales.

78. Defendant Elich disposed of 48,873 shares at an average price of $52.87, for total proceeds of over $2.58 million. Defendant Miller disposed of 35,300 shares at an average price of $67.94, for total proceeds of almost $2.40 million. Company insider Vaughn disposed of 27,239 shares at an average price of $83.70, for total proceeds of almost $2.28 million.

79. The charts below summarize the Individual Defendants' and insider Vaughn's stock sales during the Class Period:

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Defendant Elich's Class Period Sales			
Transaction Date	**Shares**	**Price**	**Proceeds**
04/30/13	23,843	$53.32	$1,271,309
04/30/13	1,290	$54.07	$69,750
05/01/13	10,776	$52.50	$565,740
05/02/13	12,964	$52.22	$676,980
Total	**48,873**	**$52.87**	**$2,583,779**

Defendant Miller's Class Period Sales			
Transaction Date	**Shares**	**Price**	**Proceeds**
07/29/13	16,293	$68.40	$1,114,441
07/30/13	19,007	$67.54	$1,283,733
Total	**35,300**	**$67.94**	**$2,398,174**

Company Insider Vaughn's Class Period Sales			
Transaction Date	**Shares**	**Price**	**Proceeds**
11/20/13	13,280	$83.12	$1,103,834
11/20/13	11,066	$84.17	$931,425
11/20/13	2,239	$85.01	$190,337
11/21/13	654	$83.00	$54,282
Total	**27,239**	**$83.70**	**$2,279,878**

80. In addition to being substantial in absolute terms, the Individual Defendants' and insider Vaughn's Class Period sales were dramatically out of line with prior trading practices and occurred at times that maximized their personal gain. For example, in contrast to Elich's Class Period sales ($2.58 million), he did not sell any Barrett stock during the 20-month period immediately preceding the Class Period ("Control Period"). Similarly, in contrast to Defendant Miller's and Company insider Vaughn's sales of Barrett stock during the Class Period ($2.40 million and $2.28 million, respectively), they did not sell any Barrett stock during the Control Period. Incredibly, since the end of the Class Period (and the drop in Barrett's stock price), Defendants Elich and Miller, along with Company insider Vaughn, have not sold a single share of Barrett stock.

81. As shown in the graphs below, the Individual Defendants' and insider Vaughn's sales were entirely concentrated in the Class Period:

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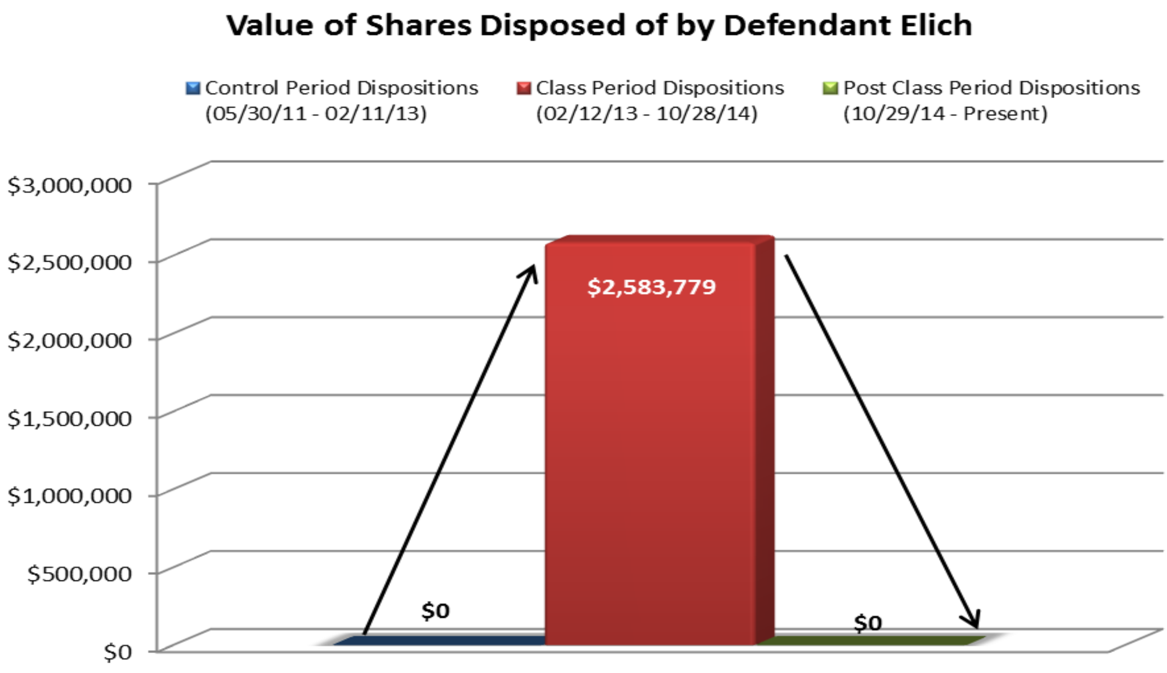
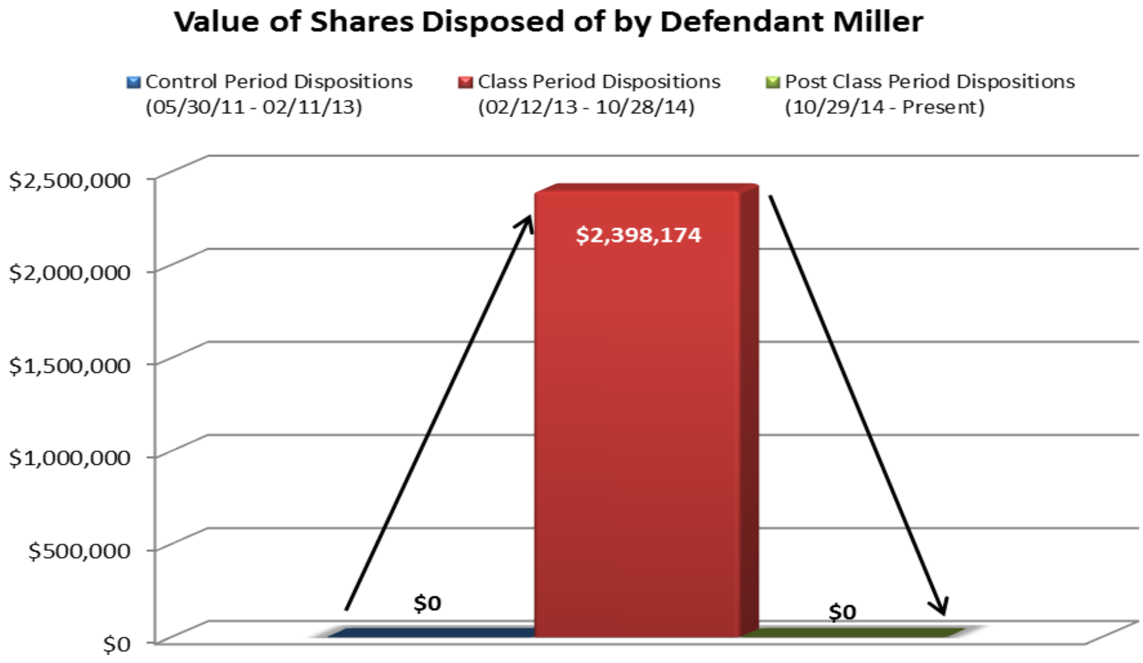

Value of Shares Disposed of by Defendant Elich
Control Period Dispositions (05/30/11 - 02/11/13)
Class Period Dispositions (02/12/13 - 10/28/14)
Post Class Period Dispositions (10/29/14 - Present)
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
$0
$2,583,779
$0


Value of Shares Disposed of by Defendant Miller
Control Period Dispositions (05/30/11 - 02/11/13)
Class Period Dispositions (02/12/13 - 10/28/14)
Post Class Period Dispositions (10/29/14 - Present)
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
$0
$2,398,174
$0

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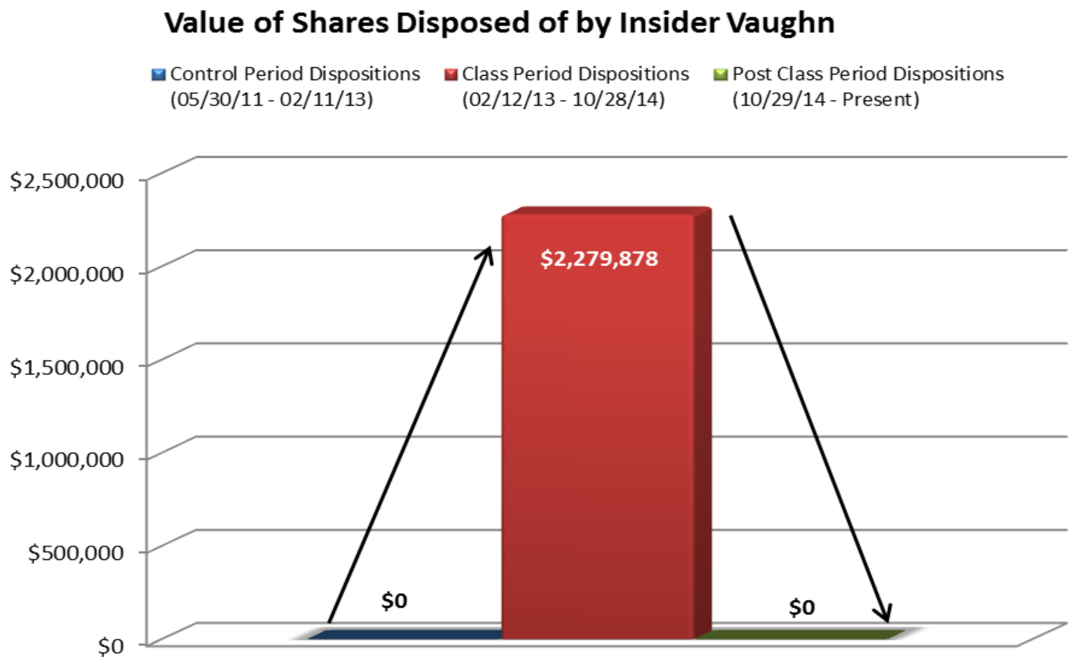
Value of Shares Disposed of by Insider Vaughn
Control Period Dispositions (05/30/11 - 02/11/13)
Class Period Dispositions (02/12/13 - 10/28/14)
Post Class Period Dispositions (10/29/14 - Present)
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
$2,279,878
$0
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82. In terms of number of shares sold, the Individual Defendants' and Company insider Vaughn's sales represented 90.9% of all shares of Barrett stock sold by Company insiders during the Class Period. Defendant Elich sold 40.7% of those shares; Defendant Miller sold 28.1%; and insider Vaughn sold 22.1%.

83. Additionally, a majority of the Individual Defendants' insider selling occurred during a period of time when Defendants have admitted they knew about the Company's workers' compensation reserve issues. Specifically, starting in 2012, the Company had begun a an internal review of its workers' compensation claims – what Defendant Elich rebranded as a "reserve strengthening process" in April 2014 – that exposed them to vast amounts of detail regarding the Company's outstanding claims, the "loss development" for those claims, and whether those claims were properly reserved for. According to Defendants' timeline, Defendant Elich, Defendant Miller and insider Vaughn pocketed almost $7.3 million in insider-selling proceeds during the Class Period.

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VI. DEFENDANTS' MATERIALLY FALSE AND MISLEADING STATEMENTS AND OMISSIONS

84. As detailed below, throughout the Class Period, Defendants knowingly, or with reckless disregard, made false and misleading statements or omitted material information about Barrett's workers' compensation reserve and the Company's profitability, including that: (i) the Company's workers' compensation reserve was accurate, "adequate," "reasonable and objective," and in accordance with GAAP; (ii) the reserve represented management's "best estimate" and was the result of "informed judgment"; (iii) Defendants were engaged in a process throughout the Class Period that would strengthen and bolster the Company's reserves; (iv) the Company "control[led] workers' compensation costs" and took "an aggressive approach to claims management"; (v) the Company's internal controls were effective; and (vi) the Company was consistently profitable, and was growing gross revenues and net income by double-digit rates.

A. Defendants' Materially False And Misleading Statements Regarding Barrett's Workers' Compensation Reserve And The Company's Profitability

1. Defendants' Materially False And Misleading Statements Concerning The Fourth Quarter And Year End 2012

85. On February 12, 2013, the beginning of the Class Period, Barrett issued a press release reporting its "Fourth Quarter and Full Year 2012 Financial Results" ("Fiscal Year 2012 Press Release"). That same day, the Company filed with the SEC a Form 8-K, which Defendant Miller certified, that included the press release as an exhibit. The Fiscal Year 2012 Press Release highlighted a "41% Increase in Q4 Gross Revenues to $597 Million Drives Diluted Earnings per Share of $0.80" and reported net revenues in the fourth quarter of 2012 increased 34% to $113.7 million, compared to $84.7 million in the fourth quarter of 2011. The Fiscal Year 2012 Press Release also reported that net income in the fourth quarter of 2012 increased to $5.8 million or $0.80 per diluted common share, compared to a net loss of $93,000 or $(0.01) per diluted

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common share in the fourth quarter of 2011.

86. The next day, Barrett hosted a conference call to discuss the Company's fourth quarter and full year 2012 financial results. During the conference call, Defendant Miller stated:

> Workers' compensation expense as a percentage of gross revenues was 4.1%, which is down 120 basis points from the same quarter a year ago, primarily due to the $8.5 million charge taken in the fourth quarter of 2011 as a result of prior year adverse loss development. . . . Looking ahead to the first quarter of 2013, anticipate the current percentage level of gross revenues for workers' comp expense of approximately 4.1% to continue.

87. On March 15, 2013, Barrett filed with the SEC its Form 10-K for the year-ended December 31, 2012 ("2012 Form 10-K"). The 2012 Form 10-K, which Defendants Elich and Miller certified, represented that the Company "seek[s] to contain [its] workers' compensation costs through an aggressive approach to claims management" and provided the following additional detail regarding workers' compensation costs:

> We control workers' compensation costs through a cultural foundation of risk mitigation and workplace safety. We employ a rigorous underwriting process to assess financial stability, risk factors, and cultural alignment related to safety and continuous improvement in the workplace. Our senior leadership is actively involved in the underwriting process, which begins with the careful selection of potential client companies.

88. The 2012 Form 10-K contained the following statement describing the methodology by which the Company set its workers' compensation reserve:

> **Workers' Compensation Claims Experience and Reserves**
>
> We recognize our liability for the ultimate payment of incurred claims and claims adjustment expenses by accruing liabilities which represent estimates of future amounts necessary to pay claims and related expenses with respect to covered events that have occurred. ***When a claim involving a probable loss is reported, our internal claims management personnel or our TPA establishes a case reserve for the estimated amount of ultimate loss***. The estimate reflects an ***informed judgment*** based on established case reserving practices and the experience and knowledge of our claims management staff and the TPA regarding the nature and expected value of the claim, as well as the estimated expense of settling the claim, including legal and other fees and expenses of administering claims.

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Management's internal accrual process for workers' compensation expense is based upon the immediate recognition of an expense and the related liability at the time a claim occurs; the value ascribed to the expense and liability is based upon our internal claims management and the TPAs' estimate of ultimate claim cost coupled with a provision for estimated future development based upon an actuarial review performed quarterly by our independent actuary. ***We believe our total accrued workers' compensation claims liabilities at December 31, 2012, are adequate.*** It is possible, however, that our actual future workers' compensation obligations may exceed the amount of our accrued liabilities, with a corresponding negative effect on future earnings***, due to such factors as unanticipated adverse loss development of known claims and, to a much lesser extent, of claims incurred but not reported.***

89. Under the heading "Critical Accounting Policies," the 2012 Form 10-K contained the following statement regarding the Company's workers' compensation reserve:

Self-Insured Workers' Compensation Reserves

***

The estimated liability for unsettled workers' compensation claims represents our best estimate, which includes an evaluation of information provided by our internal claims adjusters and our third-party claims administrators, ***coupled with management's use of an independent actuary***. These elements serve as the basis for our overall estimate for workers' compensation claims liabilities, which include more specifically the following components: case reserve estimates for reported losses, plus additional amounts for estimated future development of reported claims and incurred but not reported claims (together IBNR). Our estimates also include amounts for unallocated loss adjustment expenses, including legal costs. These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known. ***We believe that the amounts recorded for our estimated liabilities, which are based upon facts and other trends associated with the Company's historical universe of claims data, are reasonable and objective***.

90. Under the caption "Summary of Operations and Significant Accounting Policies," the 2012 Form 10-K contained the following statement related to the Company's workers' compensation claims liability and related workers' compensation expense:

Workers' compensation claims liabilities

The estimated liability for unsettled workers' compensation claims represents our best estimate, which includes an evaluation of information provided by our internal claims adjusters and our third-party administrators for workers'

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> compensation claims, coupled with an actuarial estimate of future cost development of reported claims and incurred but not reported claims (together, IBNR) provided by the Company's independent actuary.
>
> Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts for estimated future development of reported claims and incurred but not reported claims as well as estimates for unallocated loss adjustment expenses, including legal costs. ***These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.***

91. The 2012 Form 10-K also contained the following statement regarding Barrett's workers' compensation expense for the quarter:

> Workers' compensation expense for 2012 totaled $71.1 million, which compares to $53.8 million for 2011. Workers' compensation expense, as a percent of revenues, increased from 17.1% in 2011 to 17.7% in 2012. The increase in the percentage rate was primarily driven by an increase in the provision for claim costs related to current year claims and increases in estimated costs to close prior year claims and higher insurance broker commissions resulting from increased workers' compensation insurance rates.

92. Note 6 to the 2012 Form 10-K detailed that the Company's workers' compensation reserve for the quarter was $70.6 million, its Total IBNR was $48.0 million and its Case Reserve was $22.6 million.

93. As summarized in ¶¶49-75, Defendants knew, or recklessly disregarded, that their statements concerning the fourth quarter and full year 2012 regarding Barrett's workers' compensation reserve, the Company's profitability, and the effectiveness of the Company's internal controls were materially false and misleading because:

- The Company's workers' compensation reserve did not represent Defendants' "best estimate," did not reflect an "informed judgment," was not "adequate," and was not "reasonable and objective." In fact, as Defendants have admitted, the Company's "reserve strengthening process" was creating a "disruption" in the actuarial data that made accurately setting the Company's reserve nearly impossible. As a result, the Company had "no basis" on which to make accurate estimates;

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- As Defendants later admitted, the reserve was understated by at least $80 million, at least $61.3 million of which related to claims from prior periods;
- Given the $80 million shortfall in the Company's workers' compensation reserve, the Company's reported financial figures, including its growth, workers' compensation expense, workers' compensation expense as a percentage of revenues, gross margin, income from operations, net income and earnings per share were materially false and misleading;
- Defendants did not, during this time period, establish "a case reserve for the estimated amount of ultimate loss" at the time "[w]hen a claim involving a probable loss is reported." Rather, in violation of GAAP, Defendants "put dollars up again, and maybe again and again" to Case Reserves from Total IBNR "[a]s the claim matured"; and
- The Company did not "control workers' compensation costs" or take "an aggressive approach to claims management."

94. Had Defendants recorded the required workers' compensation reserve and related expense in accordance with GAAP, Barrett's financial statements for the fourth quarter and full year 2012 would have been as follows (in millions except for income (loss) per share):

	For the Quarter Ended December 31, 2012			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$70,564	$80,000	$150,564	113%
Income Statement				
Workers' Compensation Expense	$21,450	$80,000	$101,450	373%
Gross Margin	$22,252	($80,000)	($57,748)	(360%)
Income (Loss) from Operations	$8,459	($80,000)	($71,541)	(946%)
Income (Loss) before Income Taxes	$8,564	($80,000)	($71,436)	(934%)
Net Income (Loss)	$5,789	($54,078)	($48,289)	(934%)
Basic Income (Loss) per Share	$0.83	($7.71)	($6.88)	(934%)
Diluted Income (Loss) per Share	$0.80	($7.71)	($6.91)	(965%)

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	For the Twelve-Months Ended December 31, 2012			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$70,564	$80,000	$150,564	113%
Income Statement				
Workers' Compensation Expense	$71,086	$80,000	$151,086	113%
Gross Margin	$66,714	($80,000)	($13,286)	(120%)
Income (Loss) from Operations	$18,787	($80,000)	($61,213)	(426%)
Income (Loss) before Income Taxes	$19,459	($80,000)	($60,541)	(411%)
Net Income (Loss)	$13,131	($53,984)	($40,853)	(411%)
Basic Income (Loss) per Share	$1.70	($6.99)	($5.29)	(411%)
Diluted Income (Loss) per Share	$1.67	($6.99)	($5.32)	(419%)

2. Defendants' Materially False And Misleading Statements Concerning The First Quarter 2013

95. On April 23, 2013, Barrett issued a press release reporting its "First Quarter 2013 Financial Results" ("First Quarter 2013 Press Release"). That same day, the Company filed with the SEC a Form 8-K, which Defendant Miller certified, that included the press release as an exhibit. The First Quarter 2013 Press Release highlighted that "Non-GAAP Gross Revenues Up 37% to $591 Million" and reported that net revenues in the first quarter of 2013 increased 35% to $111.6 million compared to $82.4 million in the first quarter of 2012. The First Quarter 2013 Press Release also reported that net loss for the first quarter was $2.5 million or $(0.36) per diluted share compared to a net loss of $2.2 million or $(0.22) per diluted share in the first quarter of 2012.

96. The next day, Barrett hosted a conference call to discuss the Company's first quarter 2013 financial results. During the conference call, Defendant Miller stated:

> Workers' compensation expense as a percentage of gross revenues was 4.2%, which represents a 60 basis point increase over the same quarter a year ago, primarily due to an increase in the provision for estimated workers' comp claim costs, as well as to higher broker commissions. The 4.2% rate was a bit higher than originally anticipated, a 4.1% rate, due to additional investment in infrastructure to ensure that we remain in alignment with our growth.

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97. Additionally, the following exchange took place between Defendant Elich and analyst Jeff Martin of Roth Capital Partners related to Barrett's workers' compensation infrastructure and workers' compensation reserve methodology:

> **Analyst Martin**: Okay. Then, was curious about the workers' compensation infrastructure investment that affected the workers' comp as a percentage of gross payroll by about 10 basis points. If that investment -- curious what specifically that investment is, if it was specific to 2Q, if that's an ongoing investment, because according to my calculation that's $600,000 pretax, which means absent that investment you could have beat by $0.06 or $0.07 in the quarter?
>
> **Defendant Elich**: Part of it is associated with just a -- with the growth rate that we've had, we continue to have to invest back out in our infrastructure. So when you look at some of the cost structures that we build into that bucket, you have risk management, which on a build basis, or quarter over quarter or year over year basis, we see build there to stay out in front of that infrastructure build. We also have increased costs around our TPA fees, or our third-party administrators, of which we internally administer part of our claims, and then we externally administer. ***So -- and in an effort to make sure that we're not getting behind the curve, we have invested further out in front of that.*** And another area would be increases to the variable cost of commission or referral fees that we pay back to individuals, and as we have gone through and increased our overall rate structure, it reflects back into a higher basis for that calculated fee. So all of those are components. They'll -- over time, if our growth rate normalizes, you are going to see that number normalize back a little bit. ***But for the most part, it's just us also being conservative with how we're running the business and not wanting to short-change today for tomorrow***.

98. Later, Defendant Elich made the following statement in response to a question regarding workers' compensation pricing from analyst Kevin Casey of Casey Capital:

> **Analyst Casey**: Then my other question about that also is workers' comp seems to be under-priced, especially in California. Theoretically, it should be – you can argue how much higher, but at least it's double-digits, if not in the -- 20% to 30% higher. Is that hurting you guys a little bit on margin, because you and your workers' comp insurance competitors need to catch up there?
>
> **Defendant Elich**: Yes, I think that we've done a pretty good job over the last year -- the last few years, bringing that into line. I don't consider -- I don't think that we're under-priced at this point. I think that our accrual rate -- ***we are taking on more of a conservative approach relative to what we feel we need to accrue for the future liabilities of the losses or claims that we have on our books.*** But we have matured a lot in the last year at being able to look at what we are charging relative to what we are accruing, and where we are at in that equation, and we're continuing to get better at it all the time. . . . ***But when we look at our current trend of loss -- in loss development in different things, I think that we're starting to hit a pretty good sweet spot in there, and it seems to be a number that's sustainable.***

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99. On May 9, 2013, Barrett filed with the SEC its Form 10-Q for the quarter ended March 31, 2013 ("First Quarter 2013 Form 10-Q"). The First Quarter 2013 Form 10-Q, which Defendants Elich and Miller certified, contained the same, or substantially the same statements regarding the Company's workers' compensation reserve quoted in ¶90, above.

100. Note 5 to the First Quarter 2013 Form 10-Q also detailed that the Company's workers' compensation reserve for the quarter was $77.2 million, its Total IBNR was $51.8 million and its Case Reserve was $25.4 million.

101. Management's Discussion and Analysis of Financial Condition and Results of Operations in the First Quarter 2013 Form 10-Q also contained the following statement regarding Barrett's workers' compensation expense for the quarter:

> Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from $13.2 million or 16.0% in the first quarter of 2012 to $21.8 million or 19.6% in the first quarter of 2013. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims, increases in estimated costs to close prior year claims, and increased insurance broker commissions resulting from increased workers' compensation insurance rates.

102. Defendants' statements concerning the first quarter 2013 regarding Barrett's workers' compensation reserve, the Company's profitability, and the effectiveness of the Company's internal controls were materially false and misleading for the same reasons alleged above in ¶¶93-94. Additionally, Defendants' statements concerning the first quarter 2013 were false and misleading because:

- Defendants were not "being conservative" or "taking on more of a conservative approach" to how they ran the Company or set the workers compensation reserve. As they later admitted, the reserves were at least $80 million understated.

103. Had Defendants recorded the required workers' compensation reserve and related expense in accordance with GAAP, Barrett's financial statements for the first quarter 2013 would have been as follows (in millions except for income (loss) per share):

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	For the Quarter Ended March 31, 2013			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$77,212	$80,000	$157,212	104%
Income Statement				
Workers' Compensation Expense	$21,821	$80,000	$101,821	367%
Gross Margin	$8,311	($80,000)	($71,689)	(963%)
Loss from Operations	($3,960)	($80,000)	($83,960)	(2020%)
Loss before Income Taxes	($3,873)	($80,000)	($83,873)	(2066%)
Net Loss	($2,549)	($52,652)	($55,201)	(2066%)
Basic Loss per Share	($0.36)	($7.50)	($7.86)	(2066%)
Diluted Loss per Share	($0.36)	($7.50)	($7.86)	(2066%)

3. Defendants' Materially False And Misleading Statements Concerning The Second Quarter 2013

104. On July 23, 2013, Barrett issued a press release reporting its "Second Quarter 2013 Financial Results" ("Second Quarter 2013 Press Release"). That same day, the Company filed with the SEC a Form 8-K, which Defendant Miller certified, that included the press release as an exhibit. The Second Quarter 2013 Press Release highlighted that "Q2 Net Revenues Up 35% to $128.8 Million" and reported that "Total non-GAAP revenues in the second quarter of 2013 increased 37% to $675.0 million compared to $494.1 million in the second quarter of 2012." The Second Quarter 2013 Press Release also reported net income for the second quarter of $5.9 million or $0.80 per diluted share compared to net income of $3.7 million or $0.53 per diluted share in the second quarter of 2012.

105. The next day, Barrett hosted a conference call to discuss the Company's second quarter 2013 financial results. During the conference call, Defendant Miller stated:

> Workers' compensation expense as a percentage of gross revenues was 4.3%, which represents a 30 basis point increase over the same quarter a year ago, primarily due to an increase in the provision for estimated workers' comp claims cost as well as the higher broker commissions and higher safety incentives. Looking ahead to the third quarter of 2013, we anticipate the level of gross revenues for workers' compensation expense to continue in the 4.2% to 4.3% range.

106. Additionally, Defendant Miller stated:

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> Now, turning to the balance sheet of June 30, during the second quarter of 2013 we posted $63.9 million in restricted investments to collateralize a letter of credit issued to satisfy an increased surety requirement for our self-insured workers' compensation program in the State of California. . . . I should point out that while this change represented a sizable increase to the letter of credit previously posted, ***we have continually maintained the discipline of keeping cash and investments on our balance sheet to fully fund our workers' comp liabilities, which are also determined by the same actuarial evaluation process.*** Therefore, the restricted investments provide a more formal external presentation to how we have always viewed these funds internally. This change will have no effect on cash needed to run the business.

107. On August 8, 2013, Barrett filed with the SEC its Form 10-Q for the quarter ended June 30, 2013 ("Second Quarter 2013 Form 10-Q"). The Second Quarter 2013 Form 10-Q, which Defendants Elich and Miller certified, contained the same, or substantially the same, statements about the Company's workers' compensation reserve quoted in ¶90, above.

108. Note 5 to the Second Quarter 2013 Form 10-Q also detailed that the Company's workers' compensation reserve for the quarter was $84.5 million, its Total IBNR was $56.4 million and its Case Reserve was $28.1 million.

109. Management's Discussion and Analysis of Financial Condition and Results of Operations in the Second Quarter 2013 Form 10-Q also contained the following statement regarding Barrett's workers' compensation expense for the quarter:

> Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from $17.0 million or 17.8% in the second quarter of 2012 to $25.0 million or 19.4% in the second quarter of 2013. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims, increases in estimated costs to close prior year claims, and increased insurance broker commissions resulting from increased workers' compensation insurance rates.

110. Defendants' statements concerning the second quarter 2013 regarding Barrett's workers' compensation reserve, the Company's profitability, and the effectiveness of the Company's internal controls were materially false and misleading for the same reasons as alleged above in ¶¶93-94, 102-03.

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111. Had Defendants recorded the required workers' compensation reserve and related expense in accordance with GAAP, Barrett's financial statements for the second quarter 2013 would have been as follows (in millions except for income (loss) per share):

	For the Quarter Ended June 30, 2013			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$84,543	$80,000	$164,543	95%
Income Statement				
Workers' Compensation Expense	$24,978	$80,000	$104,978	320%
Gross Margin	$23,726	($80,000)	($56,274)	(337%)
Income (Loss) from Operations	$8,726	($80,000)	($71,274)	(917%)
Income (Loss) before Income Taxes	$8,836	($80,000)	($71,164)	(905%)
Net Income (Loss)	$5,886	($53,291)	($47,405)	(905%)
Basic Income (Loss) per Share	$0.83	($7.52)	($6.69)	(905%)
Diluted Income (Loss) per Share	$0.80	($7.52)	($6.73)	(943%)

	For the Six-Months Ended June 30, 2013			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$84,543	$80,000	$164,543	95%
Income Statement				
Workers' Compensation Expense	$46,799	$80,000	$126,799	171%
Gross Margin	$32,037	($80,000)	($47,963)	(250%)
Income (Loss) from Operations	$4,766	($80,000)	($75,234)	(1679%)
Income (Loss) before Income Taxes	$4,963	($80,000)	($75,037)	(1612%)
Net Income (Loss)	$3,337	($53,790)	($50,453)	(1612%)

4. Defendants' Materially False And Misleading Statements Concerning The Third Quarter 2013

112. On October 29, 2013, Barrett issued a press release reporting its "Third Quarter 2013 Financial Results" ("Third Quarter 2013 Press Release"). That same day, the Company filed with the SEC a Form 8-K, which Defendant Miller certified, that included the press release as an exhibit. The Third Quarter 2013 Press Release highlighted that "Q3 Net Revenues Up 33% to $148.0 Million" and reported that "Total non-GAAP revenues in the third quarter of 2013 increased 37% to $764.1 million compared to $558.0 million in the third quarter of 2012." The Third Quarter 2013 Press Release also reported that net income for the third quarter was

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$9.0 million or $1.21 per diluted share compared to net income of $5.8 million or $0.81 per diluted share in the third quarter of 2012.

113. The next day, Barrett hosted a conference call to discuss the Company's third quarter 2013 financial results. During the conference call, Defendant Miller stated:

> Workers' compensation expense as a percentage of gross revenues was 4.2%, which represents a 10-basis point increase over the same quarter a year ago, primarily due to an increase in provision for estimated workers' comp claim cost and to higher referral commissions.
>
> Looking ahead to the fourth quarter of 2013 we anticipate the level of gross revenues for workers comp expense to continue in the 4.2% to 4.3% range.

114. During the call, Defendant Elich made the following statements:

> **Analyst Martin**: Thanks. Mike, could you touch on the workers comp environment right now? Have you seen any changes in severity rates, incident rates? That's part one of the question and then I've got another part to it?
>
> **Defendant Elich**: [W]e have a seen on a relative basis of probably a 7% to 8% decrease in frequency year over year. Relative to the growth and everything we have. ***And from a severity rate, we've not really seen any kind of uptick over time as we've gotten better, if anything, we're getting further and further out in front about.*** The work that we're doing within our clients has a higher percentage of our clients having no claims. . . . Related to some of the SB 863 legislation, we are seeing where and we are at least were told and projected to see where in balance we'll probably be a little better off based on the nature of the type of claims we have over time. Which just leaves to us to have more stability in our model, as much as anything. ***So I would say in the last year we have made as much or more progress in the area of workers comp that we maybe had in the previous 25 years that we've been doing what we've been doing.***
>
> ***
>
> **Analyst Martin**: One other thing on workers comp. I know a couple years ago, might be going back three years, you were having some challenges that were more state legislative driven headwinds in terms of closing out claims costs. Has that abated? Is it unchanged? And if so, what do you think has driven it?
>
> **Defendant Elich**: [W]e've learned over time is that we needed to be better. And as we work on areas of how we approach claims from day one to how systemically we are aligned from the client -- from the supervisor to the client to the branch to our [T]PAs and back into the system. All make a difference. So, I don't know that there's any one area that makes it better but I think you move all 10 areas and everything gets a little bit better.
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> **Analyst Martin**: The short answer would be it really hasn't changed much in terms of ability to close them out in shorter duration, ***but you're optimistic that it will improve?***
>
> **Defendant Elich**: ***Correct***.

115. On November 8, 2013, Barrett filed with the SEC its Form 10-Q for the quarter ended September 30, 2013 ("Third Quarter 2013 Form 10-Q"). The Third Quarter 2013 Form 10-Q, which Defendants Elich and Miller certified, again contained the same, or substantially the same, statements about the Company's workers' compensation reserve quoted in ¶90, above.

116. Management's Discussion and Analysis of Financial Condition and Results of Operations in the Third Quarter 2013 Form 10-Q also contained the following statement regarding Barrett's workers' compensation expense for the quarter:

> Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from $19.4 million or 17.5% in the third quarter of 2012 to $28.2 million or 19.1% in the third quarter of 2013. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims, increases in estimated costs to close prior year claims, and increased insurance broker commissions resulting from increased workers' compensation insurance rates.

117. Defendants' statements concerning the third quarter 2013 regarding Barrett's workers' compensation reserve, the Company's profitability, and the effectiveness of the Company's internal controls were materially false and misleading for the same reasons as alleged above in ¶¶93-94, 102-03, 111.

118. Had Defendants recorded the required workers' compensation reserve and related expense in accordance with GAAP, Barrett's financial statements for the third quarter 2013 would have been as follows (in millions except for income (loss) per share):

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	For the Quarter Ended September 30, 2013			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$95,980	$80,000	$175,980	83%
Income Statement				
Workers' Compensation Expense	$28,223	$80,000	$108,223	283%
Gross Margin	$30,186	($80,000)	($49,814)	(265%)
Income (Loss) from Operations	$12,857	($80,000)	($67,143)	(622%)
Income (Loss) before Income Taxes	$12,966	($80,000)	($67,034)	(617%)
Net Income (Loss)	$8,994	($55,493)	($46,499)	(617%)
Basic Income (Loss) per Share	$1.26	($7.76)	($6.50)	(617%)
Diluted Income (Loss) per Share	$1.21	($7.76)	($6.55)	(641%)

	For the Nine-Months Ended September 30, 2013			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$95,980	$80,000	$175,980	83%
Income Statement				
Workers' Compensation Expense	$75,022	$80,000	$155,022	107%
Gross Margin	$62,223	($80,000)	($17,777)	(129%)
Income (Loss) from Operations	$17,623	($80,000)	($62,377)	(454%)
Income (Loss) before Income Taxes	$17,929	($80,000)	($62,071)	(446%)
Net Income (Loss)	$12,331	($55,021)	($42,690)	(446%)
Basic Income (Loss) per Share	$1.74	($7.77)	($6.03)	(446%)
Diluted Income (Loss) per Share	$1.67	($7.77)	($6.09)	(464%)

5. Defendants' Materially False And Misleading Statements Concerning The Fourth Quarter And Year End 2013

119. On January 21, 2014, Barrett issued a press release reporting "Preliminary Q4 2013 Results" ("Preliminary Press Release") announcing, in part, that the Company:

> expects to record an increase to its self-insured workers' compensation reserve of approximately $5.1 million, or $3.1 million after tax, equating to approximately $0.42 per diluted share in the fourth quarter of 2013. The increase represents approximately 5% of the Company's total workers' compensation reserves and is a result of increased estimated reserves for prior year injury claims, primarily in the state of California.

120. The Preliminary Press Release contained the following statement from Defendant Elich:

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> 2013 was a very successful year for BBSI as our company matured significantly over the past twelve months. . . . Part of this organizational maturation is to bring greater predictability to the model. One area of focus is how we consistently review our reserving practices for our workers' compensation liabilities, while remaining aligned with our actuarial firm. During the quarter, we determined the need to increase this reserve as a result of our actuarial firm's quarterly and annual review, in combination with insights provided through our new relationship with ACE Group to provide workers' compensation coverage in California.

121. On February 4, 2014, Barrett issued a press release reporting its "Fourth Quarter and Full Year 2013 Financial Results" ("Fiscal Year 2013 Press Release"). That same day, the Company filed with the SEC a Form 8-K, which Defendant Miller certified, that included the press release as an exhibit. The Fiscal Year 2013 Press Release highlighted that "Q4 Net Revenues Up 27% to $144.5 Million; Non-GAAP Gross Revenues Up 31% to $779.3 Million." With respect to net income, the Fiscal Year 2013 Press Release again reported that the Company:

> recorded an additional increase to its self-insured workers' compensation reserve of $5.1 million, or $3.1 million after tax, equating to $0.42 per diluted share. The increase represents approximately 5% of the Company's total workers' compensation reserve and is a result of increased estimated reserves for prior year injury claims, primarily in the state of California.

122. The next day, Barrett hosted a conference call to discuss the Company's fourth quarter and full year 2013 financial results. During the conference call, Defendant Miller stated:

> Workers' compensation expense as a percentage of gross revenues was 4.9%, which represents an 83 basis point increase over the same quarter a year ago, primarily due to an additional increase in the provision for estimated workers' comp claim costs of $5.1 million. Looking ahead to the first quarter of 2014, we anticipate the level of gross revenues for workers' comp expense to be in the 4.3% range.

123. Defendant Elich elaborated further:

> So given that as the baseline of history, our first step is, is that we go and look at a percentage of payroll or percentage of revenue, however you want to look at it, and ***we accrue at a rate into a bucket that ultimately should be adequate to cover 100% of the liability over time for the current year. As we do that, we look at the dollars as they're coming in, and I just want to use an example, so I'm going to call the bucket that we accrue in is to our I[B]NR bucket.***

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> And I don't want to get into the technical term of what I[B]NR, is because it can be defined by a lot of different people a lot of different ways, but ***as we put dollars into that bucket, that is for the contingency of recognized liability down road.*** So in the year we will go on a week-to-week basis, we accrue dollars into that bucket and ultimately we know that, from history that at some point we're going to have say a broken arm. When we have a broken arm by one of our workforce employees, those dollars, that claim is now recognized as a liability by the Company.
>
> When that happens, what we do is, ***we move dollars from this accrued bucket over into what is called an incurred number, which is put upon that claim to recognize, or estimate, for the liability*** of the broken arm.
>
> ***
>
> What happens is, is let's just say that that claim in our history was a $10,000 claim. In the past, what we would do is we would put up on the first day or early in the claim maybe $2,500 on that claim. As the person and the claim matured, we would put dollars up again, and maybe again and again. And what our history said is that we would turn four times before we recognize the $10,000 for the total liability, as it was paid out, the claim was paid and the person was permanent stationary and went back to work.
>
> ***The challenge is, is that when you start to change your reserving practices to get more dollars up on the claim earlier,*** say we put $5,000 now onto the claim earlier, ***the total liability doesn't change*** from $10,000, but now we're half way there earlier. ***The actuaries have very little way of recognizing where we're at.***

124. On the February 5, 2014 conference call, Defendant Elich assured investors that taking the $5.1 million charge now would create "better predictability as we go forward" and that the Company could now be assured that it was "properly reserved for the total liability associated with the claim." In conclusion, Defendant Elich stated that "I know for sure that our best days are still ahead."

125. On March 14, 2014, Barrett filed with the SEC its Form 10-K for the year-ended December 31, 2013 ("2013 Form 10-K"). The 2013 Form 10-K which was certified by Defendants Elich and Miller, represented that the Company "seek[s] to contain [its] workers' compensation costs through an aggressive approach to claims management."

126. The 2013 Form 10-K contained the same, or substantially similar, statements as the Company's 2012 Form 10-K regarding the Company's workers' compensation reserve, including that (1) that the reserve was "reasonable and objective," "adequate," represented an

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"informed judgment" and was management's "best estimate"; and (2) the Company contained workers' compensation costs "through an aggressive approach to claims management." *See* ¶¶87-90.

127. The 2013 Form 10-K also contained the following statement regarding Barrett's workers' compensation expense for the quarter:

> Workers' compensation expense for 2013 totaled $108.6 million, which compares to $71.1 million for 2012. Workers' compensation expense, as a percent of revenues, increased from 17.7% in 2012 to 20.4% in 2013. The increase in the percentage rate was primarily driven by an increase in the provision for claim costs related to current year claims and increases in estimated costs to close prior year claims and higher insurance broker commissions resulting from increased workers' compensation insurance rates.

128. Note 6 to the 2013 Form 10-K also detailed that the Company's workers' compensation reserve for the quarter was $112.4 million, its Total IBNR was $69.6 million and its Case Reserve was $42.8 million.

129. Defendants' statements concerning the fourth quarter and full year 2013 regarding Barrett's workers' compensation reserve, the Company's profitability, and the effectiveness of the Company's internal controls were materially false and misleading for the same reasons alleged above in ¶¶93-94, 102-03, 111, 118. Additionally, the Defendants' statements concerning the fourth quarter and full year 2013 were false and misleading because:

- As Defendants have now admitted, the "reserve strengthening" process did not result in the Company being properly reserved for the total liability associated with the claim. Rather, it uncovered that the Company's workers' compensation reserve was at least $80 million understated.

130. Had Defendants recorded the required workers' compensation reserve and related expense in accordance with GAAP, Barrett's financial statements for the fourth quarter and full year 2013 would have been as follows (in millions except for income (loss) per share):

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	For the Quarter Ended December 31, 2013			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$112,444	$80,000	$192,444	71%
Income Statement				
Workers' Compensation Expense	$33,594	$80,000	$113,594	238%
Gross Margin	$24,301	($80,000)	($55,699)	(329%)
Income (Loss) from Operations	$6,803	($80,000)	($73,197)	(1176%)
Income (Loss) before Income Taxes	$6,973	($80,000)	($73,027)	(1147%)
Net Income (Loss)	$5,560	($63,789)	($58,229)	(1147%)
Basic Income (Loss) per Share	$0.78	($8.90)	($8.13)	(1147%)
Diluted Income (Loss) per Share	$0.74	($8.90)	($8.16)	(1197%)

	For the Twelve-Months Ended December 31, 2013			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$112,444	$80,000	$192,444	71%
Income Statement				
Workers' Compensation Expense	$108,617	$80,000	$188,617	74%
Gross Margin	$86,524	($80,000)	$6,524	(92%)
Income (Loss) from Operations	$24,426	($80,000)	($55,574)	(328%)
Income (Loss) before Income Taxes	$24,902	($80,000)	($55,098)	(321%)
Net Income (Loss)	$17,892	($57,480)	($39,588)	(321%)
Basic Income (Loss) per Share	$2.52	($8.09)	($5.57)	(321%)
Diluted Income (Loss) per Share	$2.42	($8.09)	($5.67)	(334%)

6. Defendants' Materially False And Misleading Statements Concerning The First Quarter 2014

131. On April 29, 2014, Barrett issued a press release reporting its "First Quarter 2014 Financial Results" ("First Quarter 2014 Press Release"). That same day, the Company filed with the SEC a Form 8-K, which Defendant Miller certified, that included the press release as an exhibit. The First Quarter 2014 Press Release highlighted that "Q1 Net Revenues Up 21% to $135.1 Million; Non-GAAP Gross Revenues Up 23% to $727.4 Million." The First Quarter 2014 Press Release also reported that net loss for the first quarter was $3.6 million or $(0.50) per diluted share, compared to a net loss of $2.5 million or $(0.36) per diluted share in the first quarter of 2013.

132. The next day, Barrett hosted a conference call to discuss the Company's first

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quarter 2014 financial results. During the conference call, Defendant Miller stated:

> Workers' compensation expense as a percentage of gross revenues was 4.4%, which represents a 15 basis point increase over the same quarter a year ago, primarily due to small increases in the provision for estimated workers' comp claim costs, adding safety incentives, and, to a lesser extent, the initial cost of the new ACE program. Looking ahead to the second quarter of 2014, we anticipate the level of gross revenues for workers' comp expense to be in the 4.4% to 4.5% range.

133. Additionally, Defendant Elich stated:

> Related to workers' compensation, in the ***quarter we continued to make progress on our reserve strengthening process in which we estimate to be completed in the next 60 days.*** This has been a process focused on taking dollars that have been accrued in IBNR into incurred on individual claims, which is intended to get us closer to an ultimate expected level on all claims.
>
> ***
>
> In the quarter, ***we continued to see positive trends related to claim frequency reduction relative to payroll growth, total claim count build being neutral to even, and settlements of more complex claims increasing***.
>
> Moving forward and looking to lessons learned in the past several months, I can see today that we have in the past, and can no longer run, the Company in the rear-view mirror. In the quarter, we have started to review methods we have historically used to review and predict operational outcome and stress assumptions against larger numbers to build more robust operating matrices.

134. On May 12, 2014, Barrett filed with the SEC its Form 10-Q for the quarter ended March 31, 2014 ("First Quarter 2014 Form 10-Q"). The First Quarter 2014 Form 10-Q, which Defendants Elich and Miller certified, contained the same, or substantially the same, statements about the Company's workers' compensation reserve quoted in ¶90 above.

135. Note 4 to the First Quarter 2014 Form 10-Q also detailed that the Company's workers' compensation reserve for the quarter was $120.1 million, its Total IBNR was $69.2 million and its Case Reserve was $50.9 million.

136. Management's Discussion and Analysis of Financial Condition and Results of Operations in the First Quarter 2014 Form 10-Q also contained the following statement regarding Barrett's workers' compensation expense for the quarter:

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> Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from $21.8 million or 19.6% in the first quarter of 2013 to $27.6 million or 20.4% in the first quarter of 2014. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims of $4.3 million. Our total provision for current year claims of $16.4 million was based on the loss rate as a percentage of payroll calculated by our independent actuary at December 31, 2013. We also accrued $3.8 million in additional expense during the quarter related to prior year claims.

137. Defendants' statements concerning the first quarter 2014 regarding Barrett's workers' compensation reserve, the Company's profitability, and the effectiveness of the Company's internal controls were materially false and misleading for the same reasons alleged above in ¶¶93-94, 102-03, 111, 118, 129-30. Additionally, Defendants' statements concerning the first quarter 2014 were false and misleading because:

- Defendants' supposed "reserve strengthening process" did not strengthen, increase, or otherwise fortify the Company's workers' compensation reserve. Rather, it only provided Defendants (but not investors) with additional information about the degrading state of the Company's outstanding claims, and resulted in Defendants' improperly moving reserve dollars from Total IBNR to Case Reserves without simultaneously increasing the size of the total workers' compensation reserve;
- As Defendant Elich admitted at the September 4, 2014 Liolios Group Gateway Conference, the "reserve strengthening process" created a "disruption" in the actuarial data that made accurately setting the Company's reserve nearly impossible. As a result, the Company had "no basis" on which to make accurate estimates.

138. Had Defendants recorded the required workers' compensation reserve and related expense in accordance with GAAP, Barrett's financial statements for the first quarter 2014 would have been as follows (in millions except for income (loss) per share):

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	For the Quarter Ended March 31, 2014			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$120,135	$80,000	$200,135	67%
Income Statement				
Workers' Compensation Expense	$27,600	$80,000	$107,600	290%
Gross Margin	$9,306	($80,000)	($70,694)	(860%)
Loss from Operations	($5,647)	($80,000)	($85,647)	(1417%)
Loss before Income Taxes	($5,557)	($80,000)	($85,557)	(1440%)
Net Loss	($3,583)	($51,582)	($55,165)	(1440%)
Basic Loss per Share	($0.50)	($7.19)	($7.69)	(1440%)
Diluted Loss per Share	($0.50)	($7.19)	($7.69)	(1440%)

7. Defendants' Materially False And Misleading Statements Concerning The Second Quarter 2014

139. On July 29, 2014, Barrett issued a press release reporting its "Second Quarter 2014 Financial Results" ("Second Quarter 2014 Press Release"). That same day, the Company filed with the SEC a Form 8-K, which Defendant Miller certified, that included the press release as an exhibit. The Second Quarter 2014 Press Release highlighted that "Q2 Net Revenues Up 17% to $151.1 Million Drives 23% Increase in Diluted Earnings per Share to $0.98" and reported that "Total non-GAAP gross revenues in the second quarter of 2014 increased 18% to $798.4 million compared to $675.0 million in the second quarter of 2013." The Second Quarter 2014 Press Release also reported that net income for the second quarter was $7.3 million or $0.98 per diluted share compared to a net income of $5.9 million or $0.80 per diluted share in the second quarter of 2013.

140. The following day, Barrett hosted a conference call to discuss the Company's second quarter 2014 financial results. During the conference call, Defendant Miller stated:

> Looking ahead to the third quarter of 2014, we anticipate the level of gross revenues for workers' comp expense to be in the 4.5% to 4.6% range. This projected percentage increase is due to the continued transition of California customers into the ACE program and the associated incremental expense of the program.
>
> As we mentioned on last quarter's call we are continuing to progress through our reserves strengthening process where ***we have moved dollars within our workers' comp liability from the accrued IBNR bucket into specific open claims with the***

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> ***intent of accelerating claim development in order to move it closer to an ultimate expected level on all open claims, which should also improve the predictability of claim costs on a go-forward basis.***
>
> As part of this process we have engaged an outside consulting firm who will soon be reviewing a sample of these strengthened claims to evaluate the sufficiency of the new estimated claim values as well as assist management in gaining an enhanced understanding of trends within our claim population.

141. Defendant Elich also made the following statement about the "reserve strengthening" process:

> And then also related to workers' comp in the quarter, as mentioned by Jim already, ***we continue to make progress within the reserves strengthening process***. With the process when completed will serve to provide us a solid basis for a level of ultimate expected liability using our history of claims, and ***within the quarter we continue to see positive trends related to claim frequency in the current year relative to payroll and payroll growth. We also see positive trends in claim count build and settlements of more complex claims.***

142. On August 8, 2014, Barrett filed with the SEC its Form 10-Q for the quarter ended June 30, 2014 ("Second Quarter 2014 Form 10-Q"). The Second Quarter 2014 Form 10-Q, which Defendants Elich and Miller certified, contained the same or substantially the same statements about the Company's workers' compensation reserve quoted in ¶90 above.

143. In addition, the Second Quarter 2014 Form 10-Q stated the following about the Company's recent workers' compensation claims administration and reserving practices:

> ***We have undertaken a number of steps during the past two years to improve our workers' compensation claims administration and reserving practices***. These steps include hiring additional claim administrators in response to our business growth, and working to close litigated claims more quickly. In order ***to further refine our reserving practices, the Company has engaged an additional actuarial firm*** to assist management in gaining an enhanced understanding of actuarial valuation in light of the Company's specific workers' compensation claims experience.

144. Note 5 to the Second Quarter 2014 Form 10-Q also detailed that the Company's workers' compensation reserve was $122.5 million and its Total IBNR was $29.9 million and its Case Reserve was $92.6 million. ***For the first and only time ever***, Barrett's Total IBNR was lower than its Case Reserves. In fact, the ratio of Total IBNR to Case Reserves had declined to

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just 32% from 136% the prior quarter and 224% at the beginning of the Class Period.

145. Management's Discussion and Analysis of Financial Condition and Results of Operations in the Second Quarter 2014 Form 10-Q also contained the following statement regarding Barrett's workers' compensation expense for the quarter:

> Workers' compensation expense, in terms of dollars and as a percentage of revenues, increased from $25.0 million or 19.4% in the second quarter of 2013 to $30.8 million or 20.4% in the second quarter of 2014. The percentage rate increase was primarily due to an increase in the provision for claim costs related to current year claims. Our total provision for current year claims of $17.5 million was based on the loss rate as a percentage of payroll calculated by our independent actuary at December 31, 2013. We also accrued $1.3 million in additional expense during the quarter related to prior year claims.
>
> ***
>
> As described in more detail in our Annual Report on Form 10-K for the year ended December 31, 2013, we maintain reserves (recorded as accrued liabilities on our balance sheet) to cover our estimated liabilities for our self-insured workers' compensation claims. ***The adequacy of reserves can be affected by both internal and external events, including adverse development on existing claims,*** changes in medical, administrative and legal costs, and legislative or systemic changes. ***We have undertaken a number of steps during the past two years to improve our workers' compensation claims administration and reserving practices.*** These steps include hiring additional claim administrators in response to our business growth, working to close litigated claims more quickly, and establishing higher specific reserves for both new claims and open prior year claims. In order to further refine our reserving practices, the Company is in the process of engaging an additional actuarial firm to assist management in gaining an enhanced understanding of actuarial valuation in light of the Company's specific workers' compensation claims experience.

146. On September 4, 2014, Defendant Elich presented at the Liolios Group Gateway Conference. Defendant Elich reassured investors that Barrett was reserving more now than the Company's expected liability:

> So, we went in and looked at every single claim, and there were – it was roughly 1,800 claims that we went in and looked at that dated back all the way to 2000. And in doing that, we put up what we believed is the ultimate expected number … and in doing that, though and for those of you that's familiar with actuarial … studies is that any time you move data elements, it moves things around, and ***all of a sudden now I have no basis to work from.***
>
> So in doing that, we took the risk of being able to get to what we believe is a strong visibility of what that number is for all these claims, while at the same time

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> we disrupted the actuarial tables. So, it gets a little muddy to be able to say, what's your future?
>
> ***
>
> So, in June or towards the end of the quarter, we had gone through and had most of all strengthening done for 2012 back. Equally, for 2013 and 2014, we've seen very positive trends against that basis. So, when we look at where we're at today, we're through that process now, and as we've been watching things settle out the last three months, four months, we're finding that what we strengthened, we have – ***when we're settling claims, we have dollars coming back. So, we overshot it to a degree.***

147. Defendants' statements concerning the second quarter 2014 regarding Barrett's workers' compensation reserve, the Company's profitability, and the effectiveness of the Company's internal controls were materially false and misleading for the same reasons alleged above in ¶¶93-94, 102-03, 111, 118, 129-30, 137-38. Additionally, the Defendants' statements concerning the second quarter 2014 were false and misleading because:

- Defendants' supposed "reserve strengthening process" did not strengthen, increase, or otherwise fortify the Company's workers' compensation reserve. Rather, it provided Defendants (but not investors) with additional information about the degrading state of the Company's outstanding claims, and resulted in Defendants' improperly moving reserve dollars from Total IBNR to Case Reserves without simultaneously increasing the size of the total workers' compensation reserve;
- Defendants did not "improve" or "refine" their reserving practices through the "reserve strengthening" process. They only created disruption in the actuarial data and violated established ratios of Total IBNR to Case Reserves without increasing the overall reserve;
- The "reserve strengthening process" created a "disruption" in the actuarial data that made accurately setting the Company's reserve nearly impossible. As a result, the Company had "no basis" on which to make accurate estimates; and

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- Defendants had not "overshot" the reserve "to a degree" during the Class Period, but rather had understated it by $80 million, at least $61.3 million of which related to claims from prior periods.

148. Had Defendants recorded the required workers' compensation reserve and related expense in accordance with GAAP, Barrett's financial statements for the second quarter 2014 would have been as follows (in millions except for income (loss) per share):

	For the Quarter Ended June 30, 2014			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$122,506	$80,000	$202,506	65%
Income Statement				
Workers' Compensation Expense	$30,776	$80,000	$110,776	260%
Gross Margin	$29,852	($80,000)	($50,148)	(268%)
Income (Loss) from Operations	$11,281	($80,000)	($68,719)	(709%)
Income (Loss) before Income Taxes	$11,387	($80,000)	($68,613)	(703%)
Net Income (Loss)	$7,283	($51,167)	($43,884)	(703%)
Basic Income (Loss) per Share	$1.02	($7.13)	($6.12)	(703%)
Diluted Income (Loss) per Share	$0.98	($7.13)	($6.15)	(727%)

	For the Six-Months Ended June 30, 2014			
	As Reported	Adjustment	As Adjusted	Difference (%)
Balance Sheet				
Total Workers' Compensation Claims Liabilities	$122,506	$80,000	$202,506	65%
Income Statement				
Workers' Compensation Expense	$58,376	$80,000	$138,376	137%
Gross Margin	$39,158	($80,000)	($40,842)	(204%)
Income (Loss) from Operations	$5,634	($80,000)	($74,366)	(1420%)
Income (Loss) before Income Taxes	$5,830	($80,000)	($74,170)	(1372%)
Net Income (Loss)	$3,700	($50,772)	($47,072)	(1372%)
Basic Income (Loss) per Share	$0.52	($7.08)	($6.56)	(1372%)
Diluted Income (Loss) per Share	$0.50	($7.08)	($6.58)	(1424%)

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B. Barrett's Class Period Financial Statements Were Materially False And Misleading And Not In Compliance With GAAP And Applicable SEC Rules

1. Defendants' Responsibilities Under GAAP And SEC Rules And Regulations

149. As set forth in Statement of Financial Accounting Concepts ("SFAC") No. 1, *Objectives of Financial Reporting by Business Enterprises* ("SFAC 1"), one of the fundamental objectives of financial reporting is to provide accurate and reliable information concerning an entity's financial performance for the period being presented.

150. Specifically, SFAC 1 states the following:

> Financial reporting should provide information about an enterprise's financial performance during a period. ***Investors and creditors often use information about the past to help in assessing the prospects of an enterprise.*** Thus, although investment and credit decisions reflect investors' and creditors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

151. Moreover, "[m]anagement is responsible for adopting sound accounting policies and for establishing and maintaining internal control," and "[t]he fair presentation of financial statements in conformity with generally accepted accounting principles[4] is an implicit and integral part of management's responsibility." (AU § 110.03).

152. The accrual method of accounting requires that when revenues are recorded, that costs associated with those revenues also be recorded. According to SFAC No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises* ("CON 5"), Barrett was required to record the appropriate level of expenses related to workers' compensation as it was recognizing revenues (*i.e.*, matching of revenues and expenses concept).

---

[4] GAAP are those principles recognized by the accounting profession as the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. SEC Regulation S-X (17 C.F.R. § 210.4-01(a)(1)) states that financial statements filed with the SEC that are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnotes and other disclosure. Regulation S-X requires that interim financial statements comply with GAAP, with the exception that interim financial statements need not include disclosure that would be duplicative of disclosures accompanying annual disclosures, per 17 C.F.R. § 210.10- 01(a).

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153. Paragraph 86 of CON 5 states:

> Consumption of economic benefits during a period may be recognized either directly or by relating it to revenues recognized during the period:
>
> a. Some expenses, such as cost of goods sold, are matched with revenues — they are recognized upon recognition of revenues that result directly and jointly from the same transactions or other events as the expenses.
>
> b. Many expenses, such as selling and administrative salaries, are recognized during the period in which cash is spent or liabilities are incurred for goods and services that are used up either simultaneously with acquisition or soon after.
>
> c. Some expenses, such as depreciation and insurance, are allocated by systematic and rational procedures to the periods during which the related assets are expected to provide benefits.

154. A liability is defined in paragraph 35 of SFAC No. 6, *Elements of Financial Statements* ("CON 6"), as follows:

> probable[5] future sacrifices of economic benefits arising from present obligations[6] of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

155. CON 6 also describes three essential characteristics of a liability:

> a. It embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand.
>
> b. The duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice.
>
> c. The transaction or other event obligating the entity has already happened.

---

[5] "Probable is used with its usual general meaning, rather than in a specific accounting or technical sense (such as that in SFAS 5, par 3), and refers to that which can be reasonably expected or believed on the basis of available evidence or logic but is neither certain nor proved…"

[6] "Obligations in the definition is broader than *legal obligations*. It is used with its usual general meaning to refer to duties imposed legally or socially; to that which one is bound to do by contract, promise, moral responsibility, and so forth (*Webster's New World Dictionary*, p. 981)."

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156. Statement of Financial Accounting Standard ("SFAS") 112, *Employer's Accounting for Postemployment Benefits (an Amendment of FASB Statement No. 5 and 43)* ("SFAS 112")[7], specifies that:

> Postemployment benefits that meet the conditions in paragraph 6 of Statement 43 shall be accounted for in accordance with that Statement. Paragraph 6 of Statement 43 states:
>
> > An employer shall accrue a liability for employees' compensation for future absences if *all* of the following conditions are met:
> >
> > a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered,
> >
> > b. The obligation relates to rights that vest or accumulate,
> >
> > c. Payment of the compensation is probable, and
> >
> > d. The amount can be reasonably estimated. [Footnote references omitted.]
>
> Postemployment benefits that are within the scope of this Statement and that do not meet those conditions shall be accounted for in accordance with Statement 5. Paragraph 8 of Statement 5 states:
>
> > An estimated loss from a loss contingency (as defined in paragraph 1) shall be accrued by a charge to income if *both* of the following conditions are met:
> >
> > a. Information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

---

[7] Per SFAS 112, "this statement establishes accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement (referred to in this Statement as *postemployment benefits*). Postemployment benefits are all types of benefits provided to former or inactive employees, their beneficiaries, and covered dependents. Those benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits (including workers' compensation), job training and counseling, and continuation of benefits such as health care benefits and life insurance coverage."

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b. The amount of the loss can be reasonably estimated.

157. Based on this guidance, GAAP required Barrett to record an appropriate reserve for workers' compensation as of the balance sheet date. The amount of the total workers' compensation reserve should have contained the appropriate level of liability related to workers' compensation claims that had been reported (*i.e.*, Case Reserves) as well as appropriate levels of liability related to IBNR and Adverse Loss Development.

158. In addition to the specific guidance under GAAP, SEC regulations require that certain disclosures supplement a company's quarterly and annual financial statements to help investors better understand a company's financial condition. Specifically, SEC Regulation S-K, Item 303, requires that each annual Form 10-K and quarterly Form 10-Q include a narrative explaining the financial statements and the changes in financial condition of the company "***through the eyes of management***":

> The presentation of financial statements in conformity with generally accepted accounting principles includes adequate disclosure of material matters. These matters relate to the form, arrangement, and content of the financial statements and their appended notes, including, for example, the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth.[8]

159. The specific disclosure requirement of Item 303 states:

> Describe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed.

160. Finally, SEC guidance No. 36, *Management's Discussion and Analysis of Financial Condition and Results of Operations* ("FRR 36"), further discusses Item 303. SEC Staff Accounting Bulletin ("SAB") Topic 13B requires disclosure of the company's policy for

[8] Auditing Standards, AU § 431, *Adequacy of Disclosure in Financial Statements*, ¶02.

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each material type of transaction. This provision requires the following disclosures with respect to liquidity, known trends and results of operations in the Management's Discussion and Analysis ("MD&A") section of the Form 10-K:

> MD&A requires a discussion of liquidity, capital resources, results of operations and other information necessary to an understanding of a registrant's financial condition, changes in financial condition and results of operations.[9] This includes unusual or infrequent transactions, known trends or uncertainties that have had, or might reasonably be expected to have, a favorable or unfavorable material effect on revenue, operating income or net income and the relationship between revenue and the costs of the revenue… The Commission stated in FRR 36 that MD&A should ***'give investors an opportunity to look at the registrant through the eyes of management[10] by providing a historical and prospective analysis of the registrant's financial condition and results of operations, with a particular emphasis on the registrant's prospects for the future***.

2. Defendants Manipulated Barrett's Financial Statements In Violation Of GAAP

161. As summarized above, throughout the Class Period, the Company disclosed the following under the caption "Significant Accounting Policies" relating to the Company's workers' compensation claims liability and related workers' compensation expense recorded in Barrett's financial statements:[11]

Workers' compensation claims liabilities

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[9] *See* Regulation S-K, Item 303 and FRR 36.

[10] For Barrett, "through the eyes of management" required Defendants to disclose the true exposure related to the workers' compensation claims incurred as well as the Company's exposure related to workers' compensation claims incurred but not yet reported in addition to the true level of Adverse Loss Development. Throughout the Class Period, Defendants did not disclose: a) the total number of workers' compensation claims reported to the Company as of the end of each of the reporting periods; b) the average period between the occurrence of an injury and the reporting of such claim to the Company; c) the number of claims that were considered to be at risk of being affected by a higher loss development factor; d) the Loss Development Factor; and e) the number of claims with an estimated exposure of more than the maximum liability to Barrett (*e.g.*, claims are expected to amount to more than $5 million in California). These metrics, which were not disclosed to the market before the last day of the Class Period, would have allowed investors to better assess Barrett's total exposure related to workers' compensation claims and the adequacy of the related workers' compensation reserve.

[11] As an example of the language utilized in Barrett's SEC filings, Plaintiffs have included herein the language reflected in the Company's 2012 Form 10-K. The language contained in Barrett's 2013 Form 10-K is exactly the same or similar in nature.

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> ***The estimated liability for unsettled workers' compensation claims represents our best estimate***, which includes an evaluation of information provided by our internal claims adjusters and our third-party administrators for workers' compensation claims, coupled with an actuarial estimate of future cost development of reported claims and incurred but not reported claims (together, IBNR) provided by the Company's independent actuary.
>
> Included in the claims liabilities are case reserve estimates for reported losses, plus additional amounts for estimated future development of reported claims and incurred but not reported claims as well as estimates for unallocated loss adjustment expenses, including legal costs. ***These estimates are continually reviewed and adjustments to liabilities are reflected in current operating results as they become known.***

162. At the end of any particular reporting period or balance sheet date, Barrett was required under GAAP to disclose and record an appropriate reserve related to workers' compensation claims. As summarized above in ¶¶24-25, the total workers' compensation reserve considered two elements: 1) known or reported workers' compensation claims which remained unpaid as of the balance sheet date; and 2) total IBNR, which is the sum of the amount for claims that have been incurred but remain unknown to the Company as of the balance sheet date (the true IBNR reserve), and the amount for the additional costs to be incurred in the future on claims that have already been reported to the Company (the Reserve for Development on Known Claims, also known as Adverse Loss Development).

163. When it comes to reporting of workers' compensation claims, there can be a significant time lag between the date on which a claim occurs (*i.e.*, date on which a worker gets injured on the job) and the date on which a claim is reported to the company (*i.e.*, date on which the injured worker files a claim with the company).

164. The true IBNR reserve represents the estimated amount needed to cover those unreported claims that have already happened. This amount can be estimated by first evaluating the amount of time it generally takes between an injury and the reporting of the incident. For example, based on historical experience handling workers' compensation claims, a company could make the determination that it generally takes a period of three months or 90 days between the occurrence of an injury and reporting of such claim to the company.

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165. Based on the total workers' compensation expense during a period (*i.e.*, assume that on average the company incurs $1.2 million of expense related to the resolution of its workers' compensation claims in any given 12-month period), the company's true IBNR reserve would amount to $0.3 million (*i.e.*, the company would record three months of expense out of the 12-month period or a quarter of the expense) as of the balance sheet date.

166. In addition to the true IBNR, the Adverse Loss Development reserve represents the estimated additional expenditures needed to ultimately settle the known claims above the estimated amounts as of the balance sheet date. Such a reserve is also estimated based on the historical experience in handling workers' compensation claims.

167. Since the total reserve associated with the known workers' compensation claims includes solely the portion of the reported claims that remain unpaid as of the end of the reporting period, the total IBNR reserve is and should be the largest portion of the total workers' compensation reserve at any point in time.

168. Throughout the Class Period, Defendants manipulated Barrett's workers' compensation reserve in clear violation of GAAP. Defendants materially understated the Company's reported total workers' compensation claims liabilities and the Company's workers' compensation expense which, in turn, materially overstated the Company's gross margin, income from operations, income before income taxes, net income and earnings per share on both basic and diluted bases for all quarterly reporting periods ended from December 31, 2012, to June 30, 2014, including the annual reporting periods ended December 31, 2012, and 2013.

169. Defendants have admitted that the $80 million increase in the workers' compensation reserve was not based on new information or new claims, but related to claims incurred and reported prior to fiscal year 2012. Consequently, as shown above, the total workers' compensation reserves recorded as of each financial reporting period during the Class Period were materially understated as well as being prepared and presented in violation of GAAP.

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170. Defendants also knew or were reckless in not knowing that the total IBNR portion of the reserve was materially understated throughout the Class Period. The total workers' compensation reserve was reported by the Company from the quarterly reporting period ended September 30, 2012, to December 31, 2014, as follows:

	2014	Q3'2014	Q2'2014	Q1'2014	2013	Q3'2013	Q2'2013	Q1'2013	2012	Q3'2012
Balance at Beginning of Period										
Workers' Compensation Claims Liabilities	$112,444	$122,506	$120,135	$112,444	$70,564	$84,543	$77,212	$70,564	$51,193	$55,765
Claims Expense Accrual:										
Current Fiscal Year	$97,883	$39,876	$17,548	$16,351	$63,822	$17,396	$14,752	$12,677	$38,386	$9,891
Prior Fiscal Years	$67,101	$61,283	$1,303	$3,801	$23,445	$5,002	$4,234	$3,452	$12,344	$3,835
	$164,984	$101,159	$18,851	$20,152	$87,267	$22,398	$18,986	$16,129	$50,730	$13,726
Claims Payments Related to:										
Current Fiscal Year	($13,183)	($3,995)	($2,739)	($399)	($10,586)	($3,124)	($2,448)	($426)	($6,746)	($2,207)
Prior Fiscal Years	($48,263)	($11,327)	($13,741)	($12,062)	($34,801)	($7,837)	($9,207)	($9,055)	($24,613)	($5,656)
	($61,446)	($15,322)	($16,480)	($12,461)	($45,387)	($10,961)	($11,655)	($9,481)	($31,359)	($7,863)
Balance at End of Period										
Workers' Compensation Claims Liabilities	$215,982	$208,343	$122,506	$120,135	$112,444	$95,980	$84,543	$77,212	$70,564	$61,628
Portion Related to IBNR	$113,984	$117,688	$29,871	$69,185	$69,611	$59,412	$56,434	$51,838	$47,992	$44,311
IBNR vs. Total	***53%***	***56%***	***24%***	***58%***	***62%***	***62%***	***67%***	***67%***	***68%***	***72%***
IBNR vs. Reported	***112%***	***130%***	***32%***	***136%***	***163%***	***162%***	***201%***	***204%***	***213%***	***256%***

Source: Barrett Business Services Periodic Financial Statements

171. As the above table makes clear, Defendants knew that the total workers' compensation reserve was materially understated since the relative portion of the reserve related to IBNR as compared to the total reserve had been decreasing for several quarters during the Class Period, ***reaching an all-time low*** as of June 30, 2014 (*i.e.*, approximately 24% as compared to 72% prior to the start of the Class Period).[12]

172. In fact, as of June 30, 2014, ***for the first and only time ever***, the portion of the reserve related to IBNR was lower than the reserve for the reported but unpaid claims (*i.e.*, IBNR of $29.9 million as compared to $92.6 million for reported claims as of June 30, 2014 or 32% as compared to IBNR of $44.3 million as compared to $17.3 million for reported claims or 256% prior to the start of the Class Period).

[12] On October 29, 2014, Defendants admitted their knowledge that "[t]ypically, there is an expected ratio of IBNR to case reserves."

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173. Defendants admit that the IBNR reserve was in fact understated by more than $61.3 million as of June 30, 2014, at the latest. However, since Defendants have also admitted that all of the increase in the IBNR reserve related to claims incurred prior to fiscal year 2012, the workers' compensation reserve (in total and related to IBNR) was materially misstated and violated GAAP throughout the Class Period.

174. Any increase of Barrett's workers' compensation reserve would have directly affected the Company's profitability. In fact, increasing Barrett's workers' compensation reserve at any point during the Class Period would have increased the Company's expenses which, in turn, would have decreased the Company's gross margin, income from operations, income before income taxes on a dollar-for-dollar basis in addition to decreasing Barrett's net income and earnings per share.

175. Likewise, any increase in Barrett's workers' compensation reserve would have directly affected the Company's ability to pay dividends and buy-back common stock. If the workers' compensation reserve would have been recorded in accordance with GAAP throughout the Class Period, more than $80 million in future payments would have been anticipated (*i.e.*, reserve would have been $80 million higher, at a minimum). Therefore, Defendants, instead of paying cash dividends and repurchasing common stock, would have conserved the Company's cash to satisfy the anticipated payments related to the workers' compensation claims.

176. Defendants have fraudulently treated the increase in the workers' compensation reserve recorded in the quarterly reporting period ended September 30, 2014, as a change in accounting estimate as opposed to a correction of an error in further violation GAAP.

177. ASC 250, *Accounting Changes and Error Corrections* ("ASC 250"), which incorporated SFAS 154, *Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3*, makes clear that there is a significant distinction between a correction of an error and a change in accounting estimate. Specifically, ASC 250

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defines such as follows:

a. *Error in previously issued financial statements*:

> An error in recognition an error in recognition, measurement, presentation, or disclosure in financial statements resulting from mathematical mistakes, mistakes in the application of GAAP, or ***oversight or misuse of facts that existed at the time the financial statements were prepared***.

b. *Change in accounting estimate:*

> Changes in accounting estimates result from ***new information***.

178. Defendants have admitted that no new information was obtained or revealed during the third quarter of fiscal year 2014. Rather, on October 29, 2014, Defendants stated that "even though we had taken charges in 2001, 2009, 2011, we were neither solving the problem nor getting any closer to an answer." This confirmed that Barrett's increase in the workers' compensation reserve was the result of an oversight or misuse of facts that existed throughout the Class Period.

3. Defendants' Other GAAP And SEC Rules And Regulations Violations

179. In addition to the above-referenced departures from GAAP and SEC guidance, as a result of Barrett and the Individual Defendants' accounting improprieties, the Company presented its financial results in a manner that violated the following fundamental accounting and reporting principles:

> (a) The principle that financial reporting should provide information that is useful to present to potential investors and creditors and other users of the financial reports in making rational investment, credit, and similar decisions (CON 1, ¶34);
>
> (b) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, events, and circumstances that change resources and claims to those resources (CON 1, ¶40);
>
> (c) The principle that financial reporting should provide information about an enterprise's financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are

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commonly based, at least partly, on evaluations of past enterprise performance (CON 1, ¶42);

(d) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it (CON 1, ¶50);

(e) The principle that financial reporting should be reliable in that it represents what it purports to represent (CON 2, ¶¶58-59);

(f) The principle of completeness, which means that no information is omitted that may be necessary to insure that it validly represents underlying events and conditions (CON 2, ¶79); and

(g) The principle that conservatism is a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered (CON 2, ¶95).

C. Defendants' Sarbanes-Oxley And Internal Controls Certifications Were False And Misleading

180. Sections 302 and 906 of SOX require that a public company's principal officers certify their responsibilities regarding the financial reports included in each quarterly and annual filing. Section 404 of SOX requires a public company to evaluate and report on the effectiveness of its internal control over financial reporting environment annually.

181. Throughout the Class Period, Defendants Elich and Miller, in accordance with sections 302, 404, and 906 of SOX, periodically executed and issued certifications stating, *inter alia*, that:

- Barrett's financial statements and Management's Discussion and Analysis ("MD&A") of the Company's Form 10-K, did not contain any untrue statements or material omissions;
- Barrett's financial statements fairly presented the Company's financial condition, including results of operations and cash flows, for the reporting period;
- Barrett had controls and procedures related to financial reporting in place and operating effectively which provided reasonable assurances regarding the reliability of financial reporting and the preparation of the Company's financial statements in accordance with GAAP; and

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- Defendants Elich and Miller personally evaluated the effectiveness of Barrett's disclosure controls and procedures related to the period under certification.

1. Sarbanes-Oxley Certifications

182. Throughout the Class Period Defendants Elich and Miller completed certifications pursuant to section 302 of SOX in conjunction with Barrett's 2012 Form 10-K and 2013 Form 10-K. These certifications stated that:

I, Michael L. Elich [James D. Miller], certify that:

1. I have reviewed this Annual Report on Form 10-K of Barrett Business Services, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this annual report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d- 15(f)) for the Registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

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(d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the registrant's most-recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

183. Defendants Elich and Miller also completed certifications pursuant to section 302 of SOX in conjunction with Barrett's Forms 10-Q filed with the SEC throughout the Class Period, including the First Quarter 2013 Form 10-Q, the Second Quarter 2013 Form 10-Q, the Third Quarter 2013 Form 10-Q, the First Quarter 2014 Form 10-Q and the Second Quarter 2014 Form 10-Q.

184. These quarterly SOX certifications contained exactly the same, or substantially similar, statements as the annual SOX section 302 certifications detailed above.

185. Defendants Elich and Miller completed certifications pursuant to section 906 of SOX in conjunction with Barrett's 2012 Form 10-K and 2013 Form 10-K. These certifications stated that:

In connection with the Annual Report of Barrett Business Services, Inc. (the "Company") on Form 10-K for the year ended December 31, 2012 [December 31, 2013] as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify, pursuant to 18 U.S.C. § 1350, that:

(a) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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(b) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

186. Defendants Elich and Miller also completed certifications pursuant to section 906 of SOX in conjunction with Barrett's Forms 10-Q filed with the SEC throughout the Class Period. These quarterly issued SOX certifications contained exactly the same, or substantially similar, statements as the annual SOX section 906 certifications detailed above.

2. Internal Controls Over Financial Reporting

187. The Company's periodic SEC filings (*i.e.*, Forms 10-K and 10-Qs) stated, *inter alia*, that (1) Barrett's internal controls were effective and functioning properly during the reporting periods throughout the Class Period; and (2) adequate testing procedures existed ensuring that Barrett's financial statements were fairly presented in accordance with GAAP.

188. Specifically, Barrett's 2012 Form 10-K contained the following statements:

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our "disclosure controls and procedures" as defined in Exchange Act Rule 13a-15(e) as of December 31, 2012 in connection with the filing of this Annual Report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2012, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in rules and forms of the SEC and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining for our Company adequate internal control over financial reporting as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2012. This evaluation was based on the framework established

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> in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").
>
> Based upon this evaluation and the criteria noted above, management has concluded that, as of December 31, 2012, our internal control over financial reporting was effective.
>
> The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Moss Adams LLP, the Company's independent registered public accounting firm, as stated in their report which appears on page F-1 of Item 15 in this Annual Report on Form 10-K.
>
> **Changes in Internal Control over Financial Reporting**
>
> There were no changes in our internal control over financial reporting during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

189. Barrett's 2013 Form 10-K contained exactly the same, or substantially similar, statements.

190. Likewise, Barrett's First Quarter 2013 Form 10-Q contained the following statements:

> **Item 4. Controls and Procedures**
>
> **Evaluation of Disclosure Controls and Procedures**
>
> As of March 31, 2013 the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.
>
> **Changes in Internal Control Over Financial Reporting**
>
> There have been no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended March 31,

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2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

191. Barrett's other Forms 10-Q filed with the SEC throughout the Class Period contained exactly the same, or a substantially similar, statements.

192. Finally, Defendants Elich and Miller confirmed, via the signature of management representation letters to Moss Adams, LLP, the Company's independent registered public auditing firm throughout the Class Period, that Barrett's management (including Defendants Elich and Miller) alone was responsible for maintaining effective internal controls during the reporting periods included in the Class Period, and assess the effectiveness of such internal control over financial reporting.

193. As detailed herein, Defendants knew or recklessly disregarded that their statements regarding the Company's compliance with sections 302, 404 and 906 of SOX and the presence of effective disclosure controls as well as effective internal control over financial reporting were false and misleading because Defendants knew and have now confirmed that Barrett suffered from pervasive internal deficiencies surrounding the evaluation and recording of the workers' compensation reserve throughout the Class Period.

194. In addition, Defendants knew of, but ignored, numerous additional "red flags" indicating that the Company's internal control over financial reporting was not properly maintained, did not provide for an effective control environment, and did not function properly throughout the Class Period, including the following:

(a) Barrett did not have the necessary personnel with the required knowledge in order to develop a basic understanding of the methodology establishing an appropriate reserve related to the workers' compensation claims and, although asserting to the contrary, was solely relying on the competency and adequacy of the methodology establishing the workers' compensation reserve of the third-party actuaries;

(b) the quarterly actuarial reviews conducted by the Company's third-party actuaries were not robust enough to monitor the effect of current events on the workers' compensation claims incurred in prior years including, but not limited to, the prolonged recession and the higher claim development costs;

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(c) the internally developed forecasting models established at the beginning of fiscal year 2012 and utilizing the Company's experience relating to the cost of previously reported workers' compensation claims were flawed, and did not enable the Company to timely true up the estimates warranted by changes in trends, frequency and severity of the outstanding workers' compensation claims at each of the reporting periods during the Class Period;

(d) Barrett did not establish a workers' compensation reserve based on the Company's experience in resolving workers' compensation claims reported and the ultimate expense necessary to close such claims;

(e) the Company's reserve practice was to not reserve the claims fully, in violation of GAAP and was not conservative, leading to the total workers' compensation reserve being understated by at least $80 million throughout the Class Period;

(f) the increase of $63.9 million in restricted investments to collateralize a letter of credit issued to satisfy an increased surety requirement for the Company's self-insured workers' compensation program in the State of California, which was based on an actuarial evaluation of Barrett's claims, should have triggered a significant increase in Barrett's recorded reserve for workers' compensation claims during the second quarter of fiscal year 2014, at the latest;

(g) Defendants knew or were reckless in not knowing that Barrett violated GAAP by not recording an adjustment to the recorded workers' compensation reserve in the appropriate reporting period and/or in the appropriate amount in order to not "short-change today for tomorrow" by declaring dividends and stock buy-back amounting to more than $109 million from 2008 to 2014; and

(h) the Company did not have proper policies and procedures to prevent insider-trading including, but not limited to, Defendants Elich and Miller's massive ill-gotten gains from insider-trading practices during the Class Period.

195. Most, if not all, of the "red flags" described above, which are not boilerplate or general market pressure in nature, were known by Defendants to exist throughout the Class Period. In fact, Defendants have admitted that the Company's workers' compensation reserve was materially understated by more than $80 million and that such adjustment was not based on new information since it related to claims that had been reported to the Company as early as 2003 and 2004 or more than a decade ago.

196. Additionally, Defendants were forced to admit during Barrett's October 29, 2014 conference call that the internal control over financial reporting environment was not properly

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designed, not properly evaluated, and not operating effectively throughout the Class Period. Specifically, Defendant Elich admitted that "[e]ven though we had taken charges in 2001, 2009, 2011, we were neither solving the problem nor getting any closer to an answer."

197. Finally, Defendants have continuously misled and continue to mislead investors by falsely affirming and disclosing in the Company's 2012 Form 10-K, 2013 Form 10-K and Forms 10-Q filed with the SEC throughout the Class Period that "***There were no changes in our internal control over financial reporting*** [as defined in Exchange Act Rule 13a-15(f)] during the [Class Period] that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting" while Defendants knew or were reckless in not knowing that this was and is simply not the case.

VII. ADDITIONAL SCIENTER ALLEGATIONS

198. Numerous facts demonstrate that Defendants Elich and Miller knew, or were severely reckless in not knowing, that their statements concerning Barrett's workers' compensation reserve and its internal controls, were materially false and misleading when made.

199. ***First***, as detailed above, the PEO business was Barrett's largest and most significant business and was material to Barrett's financial performance, accounting for nearly three quarters of its revenue. As a core operation, the PEO business and the Company's workers' compensation reserve was frequently a topic of discussion throughout the Class Period in Barrett's financial statements, on investor conference calls and in analyst reports. In fact, Defendants spoke repeatedly and reassuringly on the subject of the workers' compensation reserve, the status of the supposed "reserve strengthening process" and the effectiveness of the Company's internal controls. Having done so, Defendants were obligated to ensure that their disclosures were accurate and complete. As a result, it is absurd to suggest that management was not acutely aware of the status of not only the PEO business as a whole, but its workers' compensation reserve. In fact, the Company had been originally recognized as a workers' compensation insurance specialist.

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200. ***Second***, as a result of their executive positions, each of the Individual Defendants had access to, and are charged with knowledge of, all aspects of Barrett's business, operations, growth, financial statements and financial condition, including all material facts regarding the Company's workers' compensation reserve. Indeed, the Individual Defendants have admitted that, from at least the start of the Class Period, they were involved in an internal review of the Company's outstanding workers' compensation claims from 2012 and prior periods. Either Defendants Elich and Miller possessed the knowledge of the Company's reserve that they claimed to have – in which case they knew that their statements about the reserve's accuracy were false and misleading – or they lacked the knowledge they claimed to have, in which case their conduct was reckless.

201. Numerous confidential witnesses confirm that the Individual Defendants had intimate knowledge of the Company's workers' compensation reserve. For example, CW3 stated that Defendant Elich held mandatory conference calls once per quarter and that workers' compensation exposure was the "biggest focus" and what they "tracked the most." Additionally, CW2 stated that Barrett's corporate office composed and distributed Quarterly WC Reports containing detailed reserve-related information and that Defendants Elich and Miller received the reports.

202. ***Third***, the Individual Defendants' decades of experience further support a strong inference of scienter. As detailed above, Defendants consistently touted their experience in the PEO industry and with workers' compensation-related issues. For example, Defendant Elich has been in the staffing and PEO business since at least 1995, and joined Barrett in 2001, while Defendant Miller has been with Barrett since 1994. Defendants consistently highlighted this experience to investors throughout the Class Period, stating that the Company had "20 years of experience . . . in taking risk with our clients in the area of workers' comp" and "[g]iven that we have been doing this for 20 years, we have a lot of history to know where we need to be."

203. ***Fourth***, the magnitude and significance of the problem supports a strong

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inference of scienter. As detailed above, Defendants' concealment of the $80 million shortfall in reserves resulted in virtually all of the Company's key financial metrics during the Class Period being dramatically overstated. By way of example, during the third and fourth quarters of 2013, the Company overstated its net income by, respectively, 617% and 1,147%, transforming significant losses into purported net profits. When revealed, the $80 million shortfall caused the workers' compensation reserve to increase by over 70%. Additionally, the charge effectively wiped out five years of earnings and, had it been taken in the proper period, would have prevented Defendants from buying back stock and issuing dividends.

204. ***Fifth***, effective June 14, 2013, the state of California required Barrett to increase its outstanding standby letters of credit by $46.7 million (the Company's announced post-tax increase in the reserve amounted to $47.9 million on October 28, 2014) related to its California workers' compensation business. The increase in standby letters of credit was the result of an actuarial evaluation for each self-insured California employer. The fact that an outside actuary evaluated Barrett's outstanding claims in California and required the Company to post increased letters of credit should have made Defendants aware, if they did not already know, that the workers' compensation reserve was substantially understated by tens of millions of dollars.

205. ***Sixth***, the temporal proximity between Defendants' misstatements and the disclosure of the $80 million charge is supportive of scienter. Specifically, the Company's Second Quarter 2014 Form 10-Q was issued on August 8, 2014, and continued to represent that the workers' compensation reserve was properly stated and represented management's "best estimate," despite the fact that, for the first and only time ever, Total IBNR was lower than Case Reserves. Additionally, on September 4, 2014, less than two months before admitting the $80 million shortfall, Defendant Elich stated at the Liolios Group Gateway Conference that Defendants had actually "overshot" the maximum possible liability for the Company's reserve. Then, following the issuance of the September 16, 2014 Copperfield Report, Defendants specifically denied to analysts that the allegations in the Copperfield Report – which included

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that the Company had "substantial reserve deficiencies" and that there was "a high probability of a massive reserve charge" – were true. Defendants were forced to disclose the $80 million provision just a month and a half later, on October 29, 2014.

VIII. THE TRUTH EMERGES

206. During the Class Period, Defendants' false and misleading statements artificially inflated the price that Plaintiffs and the rest of the Class paid for Barrett's common stock. When the truth was revealed, Barrett's share price reacted immediately and negatively as the artificial inflation was removed. As detailed below, each disclosure targeted precisely the same topics about which Defendants uttered false and misleading statements causing the stock price to be inflated. As a result, Plaintiffs and other members of the Class suffered economic loss. These losses were a direct result of Defendants' fraudulent scheme to artificially inflate the price of Barrett's common stock.

A. The Copperfield Report Discloses Details Regarding Barrett's Practice Of Systematically Understating Its Workers' Compensation Reserve

207. On September 16, 2014, at 12:41 p.m., Copperfield Research published the Copperfield Report. The title page of the Copperfield Report stated that Barrett was "[a]n insurance company ***with blow-up potential due to thin reserves, questionable accounting, a recently disclosed reserve study, and other red flags***." The Copperfield Report also detailed several additional issues related to sufficiency of the Company's workers' compensation reserve. For example, the Copperfield Report stated:

- "We believe Barrett Business Services (BBSI) operates with a precarious business model and ***substantial reserve deficiencies, which has created immense blow-up risk for public market investors***";
- "***Our work suggests BBSI has systematically under reserved, which has resulted in materially overstated earnings and a high probability of a massive reserve charge***"; and
- "Depending on the degree to which BBSI's reserves may be inadequate, there are scenarios discussed herein ***which would completely wipe out BBSI's previously reported profits***."

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208. The Copperfield Report also identified five "significant" reserve-related "red flags" that could cause the Company to have to substantially increase its loss reserves, including (a) a high level of prior-year reserve development; (b) exposure, revenue, and claims payment growth well in excess of reserve growth; (c) irreconcilably low short-term reserves; (d) extremely thin IBNR levels; and (e) reserve levels well below paid claims.

209. The Copperfield Report dedicated an entire section to the issue of Total IBNR at Barrett, stating that the "dramatic shift in IBNR and case reserves are additional red flags, with the latter inexplicably increasing from $51 million to nearly $93 million in BBSI's most recent quarter." The Copperfield Report continued:

> It appears the collapse in IBNR resulted from an arbitrary shift of reserves, ***with claim reserves rising dramatically in the past few quarters***. Case reserves increased to $92.6 million from $51.0 million in this past quarter alone. ***Over many years analyzing insurance companies, we have NEVER seen anything like this before.*** The dramatic shift to case reserves appears to have left IBNR at unsustainably low levels, while providing us with another indication of the perilous state of BBSI's reserve position.

210. Copperfield Research concluded that, in order to bring its IBNR levels in line with a comparable group of workers' compensation insurers, Barrett would have to take a charge of at least $63 million.

211. Investors reacted immediately to the information and analysis in the Copperfield Report regarding Barrett's workers' compensation reserve. By the close of trading on September 16, 2014, Barrett's stock price had fallen 15.53% from $57.64 to $48.69 on unusually high volume of 994,957 shares.

212. Even following the Copperfield Report, however, investors were unaware of the true level of the workers' compensation reserve shortfall. In part, this was due to the fact that Defendants met with securities analyst and categorically denied the veracity of the allegations in the Copperfield Report. For example, on September 17, 2014, Lake Street Capital Markets ("Lake Street") issued a report stating they had reviewed the "numerous and varied allegations with management," and that as a result of that meeting, Lake Street viewed the allegations to be

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"without merit." Likewise, Roth Capital Partners issued a report confirming that they spoke with management, and that "[w]e believe the reserve study (which was not prompted by ACE) is nearing completion" and that they "would be surprised" if any adjustment to reserves that came out of the reserves study were "material."

B. The Company Admits That Its Workers' Compensation Reserve Has Been Dramatically Understated Throughout The Class Period

213. On October 28, 2014, after the market closed, Barrett issued a press release that revealed that it would take a one-time charge to increase its workers' compensation reserve by $80 million. The vast majority of the massive increase was due to a "significant increase for the potential development of prior period claims." Indeed, of the $80 million increase in reserves, $61.3 million related to prior period claims. The effect of the charge on Barrett's financials increased the Company's workers' compensation reserve by over 70% and effectively wiped out five years of earnings.

214. The October 28, 2014 press release described the claims the "strengthening" process in further detail, including admitting that it caused a "disruption in the incurred and paid trends in the claims data during 2014, making it difficult for the Company's actuary to provide management with the best estimate of probable liability."

215. On October 29, 2014, Defendants held a conference call to discuss the disclosure. On the call, Defendant Miller discussed the "strengthening" process and the concurrent "disruption" in further detail:

> The combined effort of the strengthened process of 2012 and prior year claims and simultaneous change in our reserve practices on all claims has ***caused disruption in our actuarial data for both the incurred and paid values***. This disruption we're seeing impacts 2012 and prior years and impacts also 2013 and 2014 as well…

216. Additionally, Defendant Elich confirmed, that had Defendants disclosed the $80 million provision earlier, they would not have been able to buy back stock and issue dividends:

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> **Analyst Mendoza**: You guys have been at good returning capital to shareholders. But ultimately if you look, that's kind of $109 million, you could argue that $80 million of that you used to return to shareholders should have been -- in hindsight would have been -- should have gone into reserves.
>
> **Defendant Elich**: ***Yes.*** And that's why it's been very important for me over the last couple of years to get this right, so on a go-forward basis, we can have confidence that all the pieces in the model . . . are working as they should be and that the future itself doesn't paint us back into another corner.

217. In response, Barrett stock immediately fell on October 29, 2014, declining nearly 59% from $44.46 to close at $18.28 on record volume of 4,356,633 shares.

218. On October 29, 2014, Roth Capital Partners issued a report entitled "3Q14 Results Overshadowed by Reserve Charge" which stated that "BBSI's $80mm workers' compensation reserve is a shocking number relative to the $122.5mm accrual as of 6/30/14" and that the "[f]ocus from here will likely become BBSI's ability to fund the $80mm for the reserve." On October 30, 2014, Lake Street issued a report entitled "Reserve Charge Damaging to Credibility But Stock Is Oversold Here" which lowered its estimates and price targets for Barrett. Lake Street noted that Defendants had "dropped a bomb on investors with an $80MM workers [sic] compensation reserve charge that was multiples higher than expected." Lake Street also noted that it was "surprised that this sizeable charge was necessary" and that it "fully expect[ed] the company to be in the penalty box for some period of time" because the charge was "much greater than expectations."

219. Likewise, investors reacted negatively to Defendants' revelation. In response to Defendants' October 29, 2014 conference call, several investors expressed outrage on online message boards. One investor commented on the Seeking Alpha message board dedicated to the Copperfield Report that "There's no good way to spin this reserve increase. The sheer size raises huge concerns that management is in the dark on the profitability of the company . . . . now we are to take their word that they are over-reserving . . . It's gonna take a lot for management to regain trust." Another investor posted: "I'm amazed that they did a big investor conference in September [the Liolios Group Gateway Conference] and not a word of this."

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220. The decline in Barrett's stock price following these revelations was foreseeable at the time of Defendants' materially false statements and omissions. Indeed, despite being aware of the consequences their conduct would have on Barrett, Defendants knowingly or with reckless disregard made false and misleading statements or omitted material information about Barrett's workers' compensation reserve, and the adequacy and effectiveness of its internal controls.

IX. APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD-ON-THE-MARKET DOCTRINE

221. At all relevant times, the market for Barrett's publicly traded common stock was an efficient market for the following reasons, among others:

(a) The Company's common stock met the requirements for public listing and was listed and actively traded on the NASDAQ, a highly efficient market. The average daily volume of Barrett's common stock during the Class Period was 71,777 shares. The total number of shares traded during the Class Period was over 31 million. Further, over 92% of the stock was owned by institutional investors;

(b) As a regulated issuer, Barrett made public filings, including its Forms 8-K, 10-K, 10-Q and related press releases, with the SEC;

(c) Barrett was followed by numerous analysts and major brokerages including Roth Capital Partners, Lake Street, Prospect Capital Advisors, Redmond Asset Management, White Pine Capital, Sidoti & Company, SGF Capital Management, Casey Capital and Great Gable Partners. Reports that these analysts composed were redistributed to the public at large, including the brokerages' sales force and their customers;

(d) Barrett regularly communicated with public investors via established market communication mechanisms, including the Company's website, regular disseminations of press releases on the major news wire services, conference calls following earnings releases, presentations at investor conferences, and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services;

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(e) The materially false statements and omissions alleged herein would tend to induce a reasonable investor to misjudge the value of Barrett's common stock; and

(f) Without knowledge of the misrepresented or omitted material facts, Plaintiffs and the other members of the Class purchased or otherwise acquired Barrett common stock between the time Defendants made the materially false statements and omissions and the time the truth was disclosed, during which time the price of Barrett common stock was inflated by Defendants' materially false statements and omissions.

222. As a result, the market for Barrett's publicly traded common stock promptly digested current information with respect to Barrett from all publicly available sources and reflected such information in the price of the Company's common stock. Under these circumstances, all purchasers of Barrett's common stock during the Class Period suffered similar injury through their purchase of the stock at artificially inflated prices, and a presumption of reliance applies.

223. A class-wide presumption of reliance is also appropriate here under the Supreme Court's holding in *Affiliated Ute Citizens v. United States*, 406 U.S. 128, 92 S. Ct. 1456, 31 L. Ed. 2d 741 (1972), because the claims asserted herein are grounded in Defendants' material omissions. As this action involves Defendants' failure to disclose material adverse information regarding Barrett's true business conditions – information that Defendants were obligated to disclose – affirmative proof of reliance is not necessary. All that is necessary is that a reasonable investor would have considered the omitted facts important in making the decision to invest in Barrett common stock. Given that all the omitted information related directly to Barrett, its PEO business, its workers' compensation reserve, and ultimately its profitability, that requirement is satisfied here.

X. INAPPLICABILITY OF STATUTORY SAFE HARBOR

224. The statutory safe harbor that applies to forward-looking statements under certain circumstances does not apply to any of the materially false statements pleaded in this Complaint.

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The statements alleged to be false and misleading herein all relate to facts and conditions existing at the time the statements were made, and thus no statutory safe harbor applies.

225. Many of the specific statements pleaded herein were not identified as "forward-looking statements" when made. To the extent there were any forward-looking statements, there was no meaningful cautionary language identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements was made, the particular speaker knew that the particular forward-looking statement was false and/or the forward-looking statement was authorized and/or approved by a Company executive who knew that those statements were false when made.

XI. CLASS ACTION ALLEGATIONS

226. Plaintiffs bring this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3) on behalf of a class consisting of all persons who purchased or otherwise acquired the common stock of Barrett during the Class Period (between February 12, 2013, and October 28, 2014, inclusive). Excluded from the Class are Defendants, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which Defendants have or had a controlling interest.

227. Because Barrett had millions of shares of common stock outstanding during the Class Period, and because the Company's common stock was actively traded, members of the Class are so numerous that joinder of all members is impracticable. During the Class Period, Barrett had over seven million shares of common stock outstanding. Disposition of their claims in a class action will provide substantial benefits to the parties and the Court.

228. Throughout the Class Period, Barrett's common stock was actively traded on the

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NASDAQ. While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe there are, at a minimum, thousands of members of the Class. Members of the Class may be identified from records maintained by Barrett or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

229. The names and addresses of the record owners of Barrett common stock purchased during the Class Period are available from Barrett and/or its transfer agent(s). Notice can be provided to persons who purchased or otherwise acquired Barrett common stock by a combination of published notice and first-class mail, using techniques and forms of notice similar to those customarily used in other class actions arising under the federal securities laws.

230. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that is complained of herein.

231. Plaintiffs will fairly and adequately represent and protect the interests of the members of the Class. Plaintiffs have retained competent counsel experienced in class action and securities litigation and intends to prosecute this action vigorously. Plaintiffs have no interests antagonistic to, or in conflict with, those of the Class.

232. Common questions of law and fact exist to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are the following:

(a) whether the Defendants violated the federal securities laws by the acts and omissions as alleged herein;

(b) whether Defendants participated in and pursued the common course of conduct and fraudulent scheme complained of herein;

(c) whether Defendants acted with scienter;

(d) whether the price of Barrett common stock was artificially inflated during

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the Class Period;

(e) whether the statements Defendants made to the investing public during the Class Period misrepresented material facts about the business, financial performance, and management of Barrett; and

(f) to what extent the members of the Class have sustained damages and the proper measure of damages.

233. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, because damages suffered by the individual Class members may be relatively small, the expense and burden of individual litigation makes it impracticable for the Class members individually to redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

XII. CLAIMS FOR RELIEF

Count I
Violations Of Section 10(b) Of The Exchange Act And Rule 10b-5 Promulgated Thereunder Against Defendants Barrett, Elich And Miller

234. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

235. This claim is brought pursuant to section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, on behalf of Plaintiffs and members of the Class against Defendants Barrett, Elich and Miller.

236. During the Class Period, Defendants made materially false and misleading statements and omissions that were intended to, and throughout the Class Period did, deceive the investing public regarding Barrett's business and operations, including the appropriate level of the Company's workers' compensation reserve and the effectiveness of the Company's internal controls over financial reporting. Defendants' misrepresentations throughout the Class Period

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improperly inflated the intrinsic value of Barrett common stock and enabled the Individual Defendants to sell shares of their privately held Barrett stock while in possession of material adverse non-public information about the Company. Defendants, jointly and individually (and each of them), took the actions set forth herein.

237. Defendants Barrett, Elich and Miller: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact or omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of Barrett's common stock in an effort to maintain artificially high market prices for Barrett's common stock in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are legally responsible as primary participants in the wrongful and illegal conduct charged herein, and the Individual Defendants are also legally responsible as controlling persons as set forth in Count II below.

238. In furtherance of this unlawful scheme, plan and course of conduct, Defendants Barrett, Elich and Miller, individually and jointly, took the actions set forth herein. Defendants: (a) employed devices, schemes and artifices to defraud; (b) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading by use of means or instrumentalities of interstate commerce; and (c) engaged in acts, practices and a course of conduct which operated as a fraud and deceit upon the purchasers of the Company's common stock in an effort to create and maintain artificially high market prices for Barrett's common stock in violation of section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. Each of the Defendants named in this count was a direct, necessary and substantial participant in the common course of conduct alleged herein.

239. In addition to the duties of full disclosure imposed on Defendants Barrett, Elich and Miller as a result of their making affirmative statements and reports to the investing public, these Defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in

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SEC Regulation S-X (17 C.F.F. § 210.1-01, *et seq.*) and Regulation S-K (17 C.F.R. § 229.10, *et seq.*) and other SEC regulations, including accurate and truthful information with respect to the Company's financial condition, earnings and expenses, officer and director compensation, and management integrity so that the market price of the Company's common stock would be based on truthful, complete and accurate information.

240. Defendants Barrett, Elich and Miller, individually and in concert, directly and indirectly, by the use, means or instrumentalities of interstate commerce and/or of the U.S. mails, engaged and participated in a continuous course of conduct to misrepresent and conceal adverse material information about the business, operations and future prospects of Barrett as detailed herein.

241. Defendants Barrett, Elich and Miller employed devices, schemes, and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors regarding various aspects of Barrett's business operations, including the appropriate level of the Company's workers' compensation reserve and the effectiveness of its internal controls. Such conduct included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Barrett, in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices, and a course of business which operated as a fraud and deceit upon the purchasers of Barrett common stock during the Class Period.

242. Defendants Barrett, Elich and Miller had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or recklessly disregarded the truth in that they failed to ascertain and to disclose such facts. Such Defendants' material misrepresentations and omissions were done knowingly or with deliberate disregard for the purpose and effect of concealing the true exposure related to Barrett's workers' compensation

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claims and related reserves and the effectiveness of the Company's internal controls from the investing public and supporting the artificially inflated price of its common stock. Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by recklessly refraining from taking those steps necessary to discover whether those statements were false or misleading.

243. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Barrett common stock was artificially inflated during the Class Period. In ignorance of the fact that market prices of Barrett's publicly traded common stock were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trade, and/or on the absence of material adverse information that was known to or recklessly disregarded by Defendants but not disclosed in public statements by Defendants during the Class Period, Plaintiffs and the other members of the Class acquired Barrett common stock during the Class Period at artificially high prices and were damaged thereby.

244. At the time of said misrepresentations and omissions, Plaintiffs and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiffs and the other members of the Class and the marketplace known the truth regarding Barrett, which was not disclosed by Defendants, Plaintiffs and other members of the Class would not have purchased or otherwise acquired their Barrett common stock, or, if they had acquired such common stock during the Class Period, they would not have done so at the artificially inflated prices which they paid.

245. By virtue of the foregoing, Defendants Barrett, Elich and Miller have violated section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

246. As a direct and proximate cause of Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their respective purchases

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and sales of the Company's common stock during the Class Period.

Count II
Violations Of Section 20(a) Of The Exchange
Act Against Defendants Elich And Miller

247. Plaintiffs repeat and reallege each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

248. Defendants Elich and Miller acted as controlling persons of Barrett within the meaning of section 20(a) of the Exchange Act. By reason of their high-level and/or management positions with the Company, their ownership of Barrett stock, their participation in and/or awareness of the Company's operations and/or intimate knowledge of the fraudulent scheme, the misrepresentations and omissions disseminated to the investing public, their participation in the fraudulent acts and/or awareness of such acts, and the false financial statements filed by Barrett with the SEC and disseminated to the investing public, the Individual Defendants named in this count had the power and authority to control, and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiffs contend are false and misleading. Defendants Elich and Miller were provided with, or had unlimited access to, copies of the Company's reports, press releases, public filings, and other statements alleged by Plaintiffs to be misleading prior to and shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected. By reason of such conduct, Defendants Elich and Miller are liable pursuant to section 20(a) of the Exchange Act.

249. In particular, each of these Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same. For example, the Individual Defendants were able to and did control the content of the various SEC filings, press releases, investor presentations, and other public statements pertaining to the Company during the Class Period.

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The Individual Defendants had access to the adverse undisclosed information about Barrett's workers' compensation reserves, the Company's business, operations, financial statements, markets, and present and future business prospects via access to internal reports, conversations and connections with other corporate officers and employees; participation at management and Board meetings; and reports and other information provided to them in connection therewith.

250. As set forth above, Defendants Barrett, Elich and Miller each violated section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions as controlling persons, Defendants Elich and Miller are liable pursuant to section 20(a) of the Exchange Act.

251. As a direct and proximate result of the Individual Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchases of Barrett's common stock during the Class Period.

XIII. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for relief and judgment as follows:

(a) Determining that this action is a class action under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding compensatory damages in favor of Plaintiffs and other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including pre-judgment and post-judgment interest thereon;

(c) Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including attorneys' fees and expert fees; and

(d) Awarding such other and further relief as the Court may deem just and proper.

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XIV. JURY TRIAL DEMANDED

Plaintiffs demand a trial by jury.

Dated: April 29, 2015

Respectfully submitted,

By: /s/ Bradley S. Keller
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CERTIFICATE OF SERVICE

The undersigned attorney certifies that on the 29th day of April, 2015, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to all counsel on record in the matter.

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